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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
FAR WEST WATER & SEWER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS SEWER UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES FOR SEWER
UTILITY SERVICE BASED THEREON.

Docket No. WS-03478A-05-0801

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Surrebuttal Testimony of William A. Rigsby, CRRA, and Rodney L. Moore, in the above-
referenced matter.

RESPECTFULLY SUBMITTED this 13th day of June, 2006.


Daniel W. Pozefsky
Attorney

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2 of the foregoing filed this 13th day
3 of June, 2006 with:

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5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

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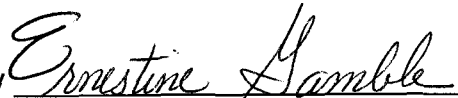
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FAR WEST WATER AND SEWER COMPANY

DOCKET NO. WS-03478A-05-0801

SURREBUTTAL TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 13, 2006

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INTRODUCTION

Q. Please state your name for the record.

A. My name is Rodney Lane Moore.

Q. Have you previously filed testimony regarding this docket?

A. Yes, I have. I filed direct testimony in this docket on April 11, 2006.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony will address the Company's rebuttal comments pertaining to adjustments I sponsored in my direct testimony.

SUMMARY OF ADJUSTMENTS

Q. What areas will you address in your surrebuttal testimony?

A. My surrebuttal testimony will address the following RUCO proposed adjustments:

1. Rate Base Adjustment No. 1 – Accumulated Amortization Of CIAC;
2. Rate Base Adjustment No. 2 – Allowance For Working Capital;
3. Operating Income Adjustment No. 2 – Property Tax Computation;
4. Operating Income Adjustment No. 4 – Rate Case Expense;
5. Operating Income Adjustment No. 12 – RUCO Removal of Inappropriate Expenses;
6. Operating Income Adjustment No. 14 - Income Tax Expense; and
7. Rate Design and Proof of Recommended Revenue.

1 To support the adjustments in my surrebuttal testimony I prepared ten
2 Surrebuttal Schedules numbered SURR RLM-1, SURR RLM-2, SURR
3 RLM-3, SURR RLM-5, SURR RLM-6, SURR RLM-8, SURR RLM-9,
4 SURR RLM-11, SURR RLM-12 and SURR RLM-13, which are filed
5 concurrently in my surrebuttal testimony.

6
7 **RATE BASE**

8 **Rate Base Adjustment No. 1 – Accumulated Amortization Of CIAC**

9 Q. Please explain your adjustment to the accumulated amortization of CIAC.

10 A. My adjustment corrects the Company's rebuttal calculation. I discovered
11 the Company workpapers for the CIAC amortization adjustment contained
12 erroneous formulae; after a discussion with the Company an
13 understanding was reached to reverse Far West's rebuttal adjustment to
14 the accumulated amortization of CIAC.

15
16 As shown on Schedule SURR RLM-2, column (D) this adjustment
17 decreases the total rate base by:

18 \$21,342.
19

20 **Rate Base Adjustment No. 2 – Allowance For Working Capital**

21 Q. Please explain your adjustment to the allowance for working capital.

22 A. My adjustment consists of two elements. First, I made a correction to the
23 Company's computation for its rebuttal adjustment; and the second

1 adjustment represents RUCO's level of operating expenses that are
2 reflected in the allowance.

3
4 Q. Please explain the first element of your adjustment to the allowance for
5 working capital.

6 A. The Company computed the pumping power expense by inadvertently
7 using the test year sludge removal expense level instead of the purchased
8 power expense when calculating this portion of the allowance.

9
10 Therefore, my first adjustment calculates the pumping power expense by
11 using the appropriate test year expenses and results in a \$3,165 increase
12 in the allowance for working capital.

13
14 Q. Please explain the second element of your adjustment to the allowance for
15 working capital.

16 A. This adjustment represents RUCO's recommended level of operations
17 and maintenance expenses which form the components of this portion of
18 the allowance and results in a \$3,215 decrease in the allowance of
19 working capital.

20
21 Q. Please summarize your adjustment to the allowance for working capital.

22 A. As shown on Schedule SURR RLM-3, column (B) the two elements of this
23 adjustment decrease the total rate base by $(\$3,165 - \$3,215 = \$50)$:

1 (\$50).

2
3 **OPERATING INCOME**

4 **Operating Income Adjustment No. 2 – Property Taxes**

5 Q. Please reiterate RUCO's position on the calculation of property taxes.

6 A. The evidence continues to show, despite the Commission's failure to
7 recognize it, that the use of the ADOR formula to estimate property taxes
8 is a much more accurate estimate of actual property tax than the
9 methodology that the Company proposes and the Commission has
10 historically adopted.

11
12 Regardless of the Company's rhetoric, Far West is requesting property tax
13 expenses of \$85,249 to cover an actual 2005 property tax liability of
14 \$35,678.98 (see Exhibit A) an over-collection of \$49,570. Moreover, this
15 2005 property tax bill is payable in two equal segments of \$17,839.49 due
16 November 1, 2005 and May 1, 2006 (first payment is eleven months and
17 the second payment is seventeen months outside the test year).

18
19 RUCO's recommended property tax expense calculation was based on
20 the ADOR property tax formula. The property tax formula, as prescribed in
21 ADOR's memo dated January 3, 2001, values water utilities, for property
22 tax purposes by multiplying the average of the water utility's three
23 previous years of reported gross revenues by a factor of two.

1 RUCO's estimated test-year property tax assessment is \$48,072, which is
2 still \$12,393 greater than the 2005 actual expense. This evidence clearly
3 demonstrates that ADOR's method more closely approximates the
4 Company's actual post-test year property tax bill than does the Company
5 and Staff methodology.

6
7 The Commission should adopt RUCO's approach and recognize the
8 ADOR methodology as the best measure of actual property tax expense.

9
10 With all due respect, the evidence has shown and continues to show, as in
11 this case, that the ADOR methodology is the most accurate. In this case, if
12 the Commission approves the Company's methodology, property taxes for
13 2005 will be overstated and allow the Company to over earn for several
14 years.

15
16 **Operating Income Adjustment No. 3 – Rate Case Expense**

17 Q. After analyzing the Company's rebuttal testimony, is RUCO revising its
18 adjustment to rate case expenses?

19 A. No. Even though the Company rejects RUCO's rate case expense level
20 for several reasons, there is no sufficiently compelling evidence presented
21 to make an adjustment to the rate case expense.

22 ...

23 ...

1 Q. Please explain RUCO's reasons to dispel the Company's arguments for
2 higher rate case expenses.

3 A. First, the Company suggests it does not control the costs. However, the
4 Company does have control over discretionary spending. For instance,
5 the objection or denial to provide commonly requested information creates
6 costly unnecessary litigation; also, providing unnecessary voluminous
7 stacks of data creates preventable costs. The Company has control over
8 the issues it chooses to litigate as well as over the consulting fees it
9 chooses to spend.

10
11 Second, the Company suggests a different group of recent rate cases
12 would provide a comparatively higher rate case expense. However,
13 RUCO did not propose an adjustment to rate case expenses in any of the
14 Company's comparison group and therefore could not effectively lower the
15 authorized rate case expenses.

16
17 Third, the Company suggests the instant case has complex issues.
18 RUCO and the Company substantially agree on the value of rate base and
19 have agreed to disagree on property tax computation, rate case expense
20 and cost of capital; this does not reach the threshold of complexity
21 warranting a substantial increase in rate case expenses.

22 ...

23 ...

Operating Income Adjustment No. 12 – RUCO Removal Of Inappropriate Expenses

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to remove inappropriate expenses unnecessary for the provisioning of utility services?

A. No. I continue to advocate for the disallowance of expenses RUCO deems inappropriate and/or unnecessary for the provisioning of utility services. The Company's rebuttal adjustments number 4 and 5 accepts \$7,665 of RUCO's recommended disallowance. However, as shown on Schedule SURR RLM-9, RUCO is recommending further decreases to adjusted test-year expenses of:
(\$3,147).

Operating Income Adjustment No. 14 – Income Tax Expense

Q. What adjustments have you made to the test-year Income Tax Expense account?

A. As shown on Schedule SURR RLM-11, I recalculated total test-year income taxes to reflect calculations based on my surrebuttal adjusted test-year revenue and expenses.

As shown on Schedule SURR RLM-6, column (G), this adjustment increases adjusted test-year expenses by:
\$552.

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

Q. Have you revised your Schedule presenting your recommended rate designs?

A. Yes, as shown on Schedule RLM-13, I am recommending a rate design that is consistent with RUCO's recommended revenue allocations and requirement as revised in my surrebuttal testimony. The rate design provides for a 7.75 percent increase equally across all classes of service, which is a 65 percent decrease over the Company's requested 29.94 percent.

Q. Have you revised your Schedule presenting proof of your recommended revenue?

A. Yes, I have. As shown on Schedule SURR RLM-13, starting below line 6, my recommended rate design will produce the recommended required revenue as revised in my surrebuttal testimony.

Q. After reviewing the Company's rebuttal testimony are you revising your adjustment to effluent sales to the golf courses.

A. No. As stated in my direct testimony, RUCO bases its recommendation for the inclusion of the calculated revenue for effluent deliveries to the Mesa Del Sol Golf Course on several premises:

1. Recognized ratemaking principles require all customers in a similar service class to be treated equally;

1 2. Historically, the Commission has recognized the replacement value
2 of effluent over other sources for irrigating golf courses (i.e. potable,
3 well, ground or CAP water, etc.); and

4 3. Golf Courses should adequately compensate the wastewater utility
5 for the effluent since it is superior to the other previously mentioned
6 sources of irrigation (i.e. economically viable, nutrient enriched,
7 conserves scarce water resources, environmentally friendly, etc.).

8
9 The ratepayers should not carry the financial burden when the Company
10 fails to prudently recover all revenue authorized in a Commission
11 approved tariff.

12
13 Therefore, my proof of recommended revenue imputes proposed revenue
14 associated with the effluent deliveries to the Mesa Del Sol Golf Course
15 calculated at the same commodity charge levied on all other effluent
16 sales.

17
18 Q. Does this conclude your surrebuttal testimony?

19 A. Yes, it does.

EXHIBIT A

THIS IS THE ONLY TAX NOTICE YOU WILL RECEIVE

For important information
and payment instructions,
see reverse side.

YOUR CHECK IS YOUR RECEIPT

5

2005 TAX SUMMARY	
Primary Ad Valorem Tax	27,038.14
Less State Aid To Education	0.00
Net Primary Ad Valorem Tax	27,038.14
Secondary Ad Valorem Tax	8,640.84
Special District Tax	0.00
TOTAL TAX DUE	35,678.98
HALF TAX	17,839.49

SECONDARY PROPERTY TAX CALCULATION						
ITEM	Full Cash Value	ASSMT%	Assessed Value	Exemption	Tax Rate	Ad Valorem Tax
LAND	29,380	25.00	7,345	0	0.0000	0.00
BLDGS, ETC.	333,012	25.00	83,253	0	0.0000	0.00
PERSONAL PROPERTY	764,608	25.00	191,152	0	0.0000	0.00
TOTALS	1,127,000		281,750	0		\$ 840.84

2004 - 2005 TAX COMPARISON

[illegible]

OCT - 7 2005

DELINQUENT DATES	
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99	100

1st Half Year Taxes become delinquent on November 1, 2005 at 5:00 PM, unless the full year tax bill exceeds \$100.00 and the full year is paid by December 31, 2005 (excluding delinquencies that are due November 1, 2005).

2nd Half Year Taxes become delinquent on May 1, 2006 at 5:00 PM

2nd Half Year Taxes become delinquent on May 1, 2006 at 5:00 PM
PLEASE SEND ALL PAYMENTS TO: Karen Fritz, Yuma County Treasurer, 410 Maiden Lane Ste. C, Yuma, AZ 85364

SURREBUTTAL
TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
SURR RLM-1	1 & 2	REVENUE REQUIREMENT
SURR RLM-2	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
TESTIMONY		RATE BASE ADJUSTMENT NO. 1 - ACCUMULATED AMORTIZATION OF CIAC
SURR RLM-3	1	RATE BASE ADJUSTMENT NO. 2 - ALLOWANCE FOR WORKING CAPITAL
NO SURR ADJUSTMENT		RATE BASE ADJUSTMENT NO. 3 - RUCO ADJUSTMENT TO PLANT AND ACCUMULATED DEPRECIATION
NO SURR ADJUSTMENT		RATE BASE ADJUSTMENT NO. 4 - CORRECTION TO COMPANY'S ACCUMULATED DEPRECIATION
SURR RLM-5	1	OPERATING INCOME
SURR RLM-6	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
NO SURR ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
SURR RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 4 - REVENUE ANNUALIZATION
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 5 - REMOVE OTHER INCOME/OTHER EXPENSES
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 6 - ANNUALIZED PURCHASED POWER
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 7 - PURCHASED POWER - APS INCREASE
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 8 - LEGAL EXPENSE
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 9 - CHEMICALS
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 10- POSTAGE
NO ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 11- RECONNECT FEES
SURR RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 12- RUCO REMOVAL OF INAPPROPRIATE EXPENSES
NO SURR ADJUSTMENT		OPERATING INCOME ADJUSTMENT NO. 13- RUCO CAPITALIZATION OF OPERATING EXPENSES
SURR RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 14- INCOME TAX EXPENSE
SURR RLM-12	1	COST OF CAPITAL
SURR RLM-13	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

**SURREBUTTAL
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) COMPANY REBUTTAL OCRB/FVRB	(C) RUCO DIRECT OCRB/FVRB	(D) RUCO SURREBUTTAL OCRB/FVRB
1	Fair Value Rate Base	\$ 1,765,386	\$ 1,794,270	\$ 1,827,684	\$ 1,815,563
2	Adjusted Operating Income (Loss)	\$ (135,925)	\$ (52,733)	\$ (39,031)	\$ 2,516
3	Current Rate Of Return (L2 / L1)	-7.70%	-2.94%	-2.136%	0.139%
4	Required Operating Income (L5 X L1)	\$ 185,366	\$ 188,398	\$ 166,502	\$ 159,951
5	Required Rate Of Return On Fair Value Rate Base	10.50%	10.50%	9.11%	8.81%
6	Operating Income Deficiency (L4 - L2)	\$ 321,290	\$ 241,131	\$ 205,533	\$ 157,436
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6029	1.6055	1.4638	1.4525
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 514,996	\$ 387,128	\$ 300,867	\$ 228,670
9	Adjusted Test Year Revenue	\$ 1,462,992	\$ 1,467,317	\$ 1,462,992	\$ 1,462,992
10	Proposed Annual Revenue (L8 + L9)	\$ 1,977,988	\$ 1,854,358	\$ 1,763,859	\$ 1,691,662
11	Required Percentage Increase In Revenue (L8 / L9)	35.20%	26.38%	20.57%	15.63%
12	Rate Of Return On Common Equity	10.50%	10.50%	9.56%	9.04%

References:

Column (A): Company As Filed Schedules A-1 and C-1
Column (B): Company Rebuttal Schedules A-1 and C-2
Column (C): RUCO Direct Schedule RLM-2, RLM-6, And RLM-12
Column (D): RUCO Surrebuttal Schedule SURR RLM-2 And SURR RLM-6

SURREBUTTAL
REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	(0.3115)			
3	Subtotal (L1 + L2)	0.6885			
4	Revenue Conversion Factor (L1 / L3)	1.4525			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	25.9951%			
9	Effective Federal Income Tax Rate (L7 X L8)	24.1837%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	31.1517%			
11	Required Operating Income (Sch. RLM-1, Col. (B), L4)	\$ 159,951			
12	Adj'd T.Y. Oper'g (Loss) (Sch. RLM-1, Col. (B), L2)	2,516			
13	Required Increase In Operating Income (L11 - L12)		\$ 157,436		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 43,128			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(31,376)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 74,503		
17	Total Required Increase In Revenue (L13 + L16)		\$ 231,939		
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Col. (B), L10)			\$ 1,691,662	
19	Operating Expense Excluding Income Tax (SURR RLM-5, Col. (E), L25 - L24)			(1,491,852)	
20	Synchronized Interest (Col. (C), L37)			(61,366)	
21	Arizona Taxable Income (L18 + L19 + L20)			\$ 138,444	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 9,647
24	Fed. Taxable Income (L21 - L23)			\$ 128,797	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			11,231	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 33,481
31	Combined Federal And State Income Tax (L23 + L30)				\$ 43,128
32	Test Year Combined Income Tax, RUCO As Adjusted (SURR RLM-5, Col. (E), L24)				\$ (31,376)
33	RUCO Adjustment (L31 - L32) (See SURR RLM-5, Col. (D), L24)				\$ 74,503
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				26.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (G), L14)			\$ 1,815,563	
36	Weighted Avg. Cost Of Debt (Sch. RLM-12, Col. (F), L1)			3.38%	
37	Synchronized Interest (L35 X L36)			\$ 61,366	

SURREBUTTAL
SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) COMPANY ADJUSTED OCRB/FVRB	(C) COMPANY REBUTTAL OCRB/FVRB	(D) RUCO ADJMT NO. 1	(E) RUCO ADJMT NO. 2	(F) RUCO ADJMT NO. 3	(G) RUCO ADJMT NO. 4	(H) RUCO ADJMT OCRB/FVRB
1	Gross Utility Plant In Service	\$ 14,437,703	\$ 46,878	\$ 14,484,581	\$ -	\$ -	\$ -	\$ -	\$ 14,484,581
2	Accumulated Depreciation	(1,679,426)	(7,045)	(1,672,381)	-	-	-	-	(1,672,381)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 12,758,277</u>	<u>\$ 39,833</u>	<u>\$ 12,812,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,812,200</u>
4	Advances In Aid Of Const.	\$ (7,513,932)	\$ -	\$ (7,513,932)	\$ -	\$ -	\$ -	\$ -	\$ (7,513,932)
5	Contribution In Aid Of Const.	\$ (4,163,842)	\$ -	\$ (4,163,842)	\$ -	\$ -	\$ -	\$ -	\$ (4,163,842)
6	Accumulated Amortization Of CIAC	562,893	(21,342)	541,551	21,342	-	-	-	562,893
7	NET CIAC (L5 + L6)	<u>\$ (3,600,949)</u>	<u>\$ (21,342)</u>	<u>\$ (3,622,291)</u>	<u>\$ 21,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,600,949)</u>
8	Customer Meter Deposits	\$ (6,435)	\$ -	\$ (6,435)	\$ -	\$ -	\$ -	\$ -	\$ (6,435)
9	Working Capital:								
10	1/8 Oper. & Maint. Exp.	\$ 121,310	\$ (3,696)	\$ 117,614	\$ -	\$ (3,215)	\$ -	\$ -	\$ 114,399
11	1/24 Pumping Power	7,114	-	7,114	-	3,165	-	-	10,279
12	1/24 Purchased Treatment	-	-	-	-	-	-	-	-
13	Materials And Supplies Inventories	-	-	-	-	-	-	-	-
14	Prepayments	-	-	-	-	-	-	-	-
14	Working Capital (Sum L8 Thru L12)	<u>\$ 128,424</u>	<u>\$ (3,696)</u>	<u>\$ 124,728</u>	<u>\$ -</u>	<u>\$ (50)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,679</u>
15	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 & 14)	<u>\$ 1,765,385</u>	<u>\$ 14,795</u>	<u>\$ 1,794,270</u>	<u>\$ 21,342</u>	<u>\$ (50)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,815,563</u>

References:

Columns (A) (B) (C): Company Rebuttal Schedule B-2, Page 2
Column (D): Adjustment To Contributions-In-Aid Of Construction (See Testimony, RLM)
Column (E): Adjustment To The Allowance For Working Capital (See SURR RLM-3, Column (C), Line 26)
Column (F): No Surrebittal Adjustment
Column (G): No Surrebittal Adjustment
Column (H): Sum Of Columns (C), (D), (E), (F) & (G)

SURREBUTTAL
EXPLANATION OF RATE BASE ADJUSTMENT NO. 2
ALLOWANCE FOR WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY REBUTTAL	(B) RUCO ADJ'TS	REF	(C) RUCO AS ADJUSTED
	Cash Working Capital:				
1	1/8 Operations and Maintenance Expense	\$ 120,779	\$ (3,215)	A	\$ 117,564
2	1/24 Pumping Power Expense	3,949	3,165	B-1	7,114
3	1/24 Pumping Power Expense	-	-	B-2	-
4	1/24 Purchased Wastewater Treatment	-	-	C	-
5	Materials and Supplies Inventories	-	-	D	-
6	Prepayments	-	-	E	-
7	Total Working Capital Allowance (Sum L 1 To 6)	<u>\$ 124,728</u>	<u>\$ (50)</u>	F	<u>\$ 124,679</u>
Adjustments:					
	A - 1/8 Operations and Maintenance Expense				
8	As Per RUCO SURR RLM-5 Col. (E), L25 - L's 6, 8, 21, 22, 23 & 24				\$ 940,517
9	As Per Company's Rebuttal Filing (WP schb5 RB, G64)				966,234
10	Difference (L8 - L9)				<u>\$ (25,716)</u>
11	1/8 of Difference (L10 x 1/ 8)				<u>\$ (3,215)</u>
	B-1 - 1/24 Pumping Power Expense To Correct Company's Computation				
12	As Per RUCO Corrected Company's Rebuttal Filing (Should Be WP schc1, Q19)				\$ 170,744
13	As Per Company's Rebuttal Filing (Incorrect Cell WP schc1, Q18)				94,784
14	Difference (L12 - L13)				<u>\$ 75,960</u>
15	1/24 of Difference (L14 X 1/24)				<u>\$ 3,165</u>
	B-2 - 1/24 Pumping Power Expense - RUCO Adjustment To Operating Expenses				
16	As Per RUCO Sch. RLM-5 Col. (E), Line 8)				\$ 170,744
17	As Per RUCO Corrected Company's Rebuttal Filing (Line 12)				170,744
18	Difference (L16 - L17)				<u>\$ -</u>
19	1/24 of Difference (L18 X 1/24)				<u>\$ -</u>
	C - 1/24 Purchased Wastewater Treatment Charges				
20	As Per RUCO SURR RLM-5 Col. (E), Line 6)				\$ -
21	As Per Company's Rebuttal Filing (Schedule C-1)				-
22	Difference (L20 - L21)				<u>\$ -</u>
23	1/24 of Difference (L22 X 1/24)				<u>\$ -</u>
	D - Materials and Supplies Inventories				
24	As Per RUCO				\$ -
25	As Per Company's Rebuttal Filing (Schedule E-1)				-
26	Difference (L24 - L25)				<u>\$ -</u>
	E - Prepayments				
27	As Per RUCO				\$ -
28	As Per Company's Rebuttal Filing (Schedule E-1)				-
29	Difference (L27 - L28)				<u>\$ -</u>
30	F - Total Working Capital Allowance Adjustment (L11 + L15 + L19 + L23 + L26 + L29)				<u>\$ (50)</u>
31	RUCO Adjustment (Line 25) (See SURR RLM-2, Column (C))				<u>\$ (50)</u>

References:

Column (A): Company Rebuttal Schedule B-5
Column (B): See Adjustments A, B-1, B-2, C, D, E & F
Column (C): Column (A) + Column (B)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) COMPANY REBUTTAL ADJUSTMENTS	(C) COMPANY REBUTTAL	(D) RUCO SURREBUTTAL ADJUSTMENTS	(E) RUCO TEST YEAR AS ADJUSTED	(F) RUCO PROPOSED CHANGES	(G) RUCO AS RECOMMENDED
Revenues:								
1	Fiat Rate Revenues	\$ 1,362,295	\$ -	\$ 1,362,295	\$ -	\$ 1,362,295	\$ 217,692	\$ 1,579,987
2	Miscellaneous Service Revenues	84,233	-	84,233	-	84,233	10,979	95,212
3	Other Wastewater Revenues	16,464	-	16,464	-	16,464	-	16,464
4	TOTAL OPERATING REVENUE	\$ 1,462,992	\$ -	\$ 1,462,992	\$ -	\$ 1,462,992	\$ 228,670	\$ 1,691,662
Operating Expenses:								
5	Salaries And Wages	\$ 401,131	\$ -	\$ 401,131	\$ (268)	\$ 400,863	\$ -	\$ 400,863
6	Purchased Wastewater Treatment	-	-	-	-	-	-	-
7	Sludge Removal Expense	94,784	-	94,784	-	94,784	-	94,784
8	Purchased Power	170,744	-	170,744	-	170,744	-	170,744
9	Fuel For Power Production	-	-	-	-	-	-	-
10	Chemicals	75,193	-	75,193	-	75,193	-	75,193
11	Materials And Supplies	75,104	-	75,104	(10)	75,094	-	75,094
12	Contractual Services - Professional	29,681	(19,867)	9,814	(1,076)	8,738	-	8,738
13	Contractual Services - Testing	36,376	(19,005)	17,371	-	17,371	-	17,371
14	Contractual Services - Other	-	-	-	-	-	-	-
15	Repair And Maintenance	172,158	(28,418)	143,740	(35)	143,705	-	143,705
16	Rents	20,034	-	20,034	-	20,034	-	20,034
17	Transportation Expenses	21,676	-	21,676	(398)	21,278	-	21,278
18	Insurance	36,067	-	36,067	-	36,067	-	36,067
19	Regulatory Commission Expense	32,000	-	32,000	(15,477)	16,523	-	16,523
20	Miscellaneous Expense	51,185	(18,958)	32,227	(1,360)	30,867	-	30,867
21	Depreciation Expense	391,498	(66,072)	325,426	-	325,426	-	325,426
22	Taxes Other Than Income	7,093	-	7,093	-	7,093	-	7,093
23	Property Taxes	66,142	19,107	85,249	(37,177)	48,072	-	48,072
24	Income Tax	(81,949)	50,021	(31,928)	552	(31,376)	71,235	39,859
25	TOTAL OPERATING EXPENSES	\$ 1,598,917	\$ (83,192)	\$ 1,515,725	\$ (55,249)	\$ 1,460,476	\$ 71,235	\$ 1,531,711
26	OPERATING INCOME (LOSS)	\$ (135,925)		\$ (52,733)		\$ 2,516		\$ 159,951

References:

Columns (A) (B) (C): Company Schedule C-1
Column (D): SURR RLM-6, Columns (D) Thru (G)
Column (E): Column (C) + Column (D)
Column (F): SURR RLM-13, Column (D), Lines 17 & 18 And SURR RLM-1, Pg 2, Col. (D), Line 33
Column (G): Column (E) + Column (F)

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS 2, 3, --- 12 AND 14

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) COMPANY ADJMT'S	(C) COMPANY REBUTTAL	(D) ADJ #2	(E) ADJ #3	(F) ADJ #12	(G) ADJ #14	(H) RUCO AS ADJT'D
Revenues:									
1	Flat Rate Revenues	\$ 1,362,295	\$ -	\$ 1,362,295	\$ -	\$ -	\$ -	\$ -	\$ 1,362,295
2	Misc. Service Rev.	84,233	-	84,233	-	-	-	-	84,233
3	Other WW Rev.	16,464	-	16,464	-	-	-	-	16,464
4	TOTAL OPR'G REV.	<u>\$ 1,462,992</u>	<u>\$ -</u>	<u>\$ 1,462,992</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,462,992</u>
Operating Expenses:									
5	Salaries And Wages	\$ 401,131	\$ -	\$ 401,131	\$ -	\$ -	\$ (268)	\$ -	\$ 400,863
6	Purch'd WW Treat.	-	-	-	-	-	-	-	-
7	Sludge Removal Exp.	94,784	-	94,784	-	-	-	-	94,784
8	Purchased Power	170,744	-	170,744	-	-	-	-	170,744
9	Fuel - Power Prod.	-	-	-	-	-	-	-	-
10	Chemicals	75,193	-	75,193	-	-	-	-	75,193
11	Materials & Supplies	75,104	(19,867)	55,237	-	-	(10)	-	55,227
12	Cont. Ser. - Prof.	29,681	(19,005)	10,676	-	-	(1,076)	-	9,600
13	Cont. Ser. - Testing	36,376	-	36,376	-	-	-	-	36,376
14	Cont. Ser. - Other	-	-	-	-	-	-	-	-
15	Repair And Maint.	172,158	(28,418)	143,740	-	-	(35)	-	143,705
16	Rents	20,034	-	20,034	-	-	-	-	20,034
17	Transportation Exp.	21,676	-	21,676	-	-	(398)	-	21,278
18	Insurance	36,067	-	36,067	-	-	-	-	36,067
19	Reg. Comm. Exp.	32,000	-	32,000	-	(15,477)	-	-	16,523
20	Misc. Expense	51,185	(18,958)	32,227	-	-	(1,360)	-	30,867
21	Dep. Expense	391,498	(66,072)	325,426	-	-	-	-	325,426
22	Taxes Other Than Inc	7,093	-	7,093	-	-	-	-	7,093
23	Property Taxes	66,142	19,107	85,249	(37,177)	-	-	-	48,072
24	Income Tax	(81,949)	50,021	(31,928)	-	-	-	552	(31,376)
25	TOTAL OPR'G EXP.	<u>\$ 1,598,917</u>	<u>\$ (83,192)</u>	<u>\$ 1,515,725</u>	<u>\$ (37,177)</u>	<u>\$ (15,477)</u>	<u>\$ (3,147)</u>	<u>\$ 552</u>	<u>\$ 1,460,476</u>
26	OPR'G INC. (LOSS)	<u>\$ (135,925)</u>		<u>\$ (52,733)</u>					<u>\$ 2,516</u>

ADJUSTMENTS:

- 1 - Test-Year Depreciation Expense
- 2 - Property Tax Computation
- 3 - Rate Case Expense
- 4 - Revenue Annualization
- 5 - Remove Other Income/Other Expenses
- 6 - Annualized Purchased Power
- 7 - Adjusted Purchased Power To Reflect APS Increase
- 8 - Remove Legal Expense
- 9 - Normalize Chemical Expense
- 10 - Normalize Postage Expense
- 11 - Remove Reconnect Fees
- 12 - RUCO Adjustment To Remove Inappropriate Expenses
- 13 - RUCO Capitalization Of Operating Expenses
- 14 - Income Tax

REFERENCE:

- NO SURREBUTTAL ADJUSTMENT
Testimony, RLM And Schedule SURR RLM-8
- Testimony, RLM
- NO SURREBUTTAL ADJUSTMENT
- NO SURREBUTTAL ADJUSTMENT
- NO SURREBUTTAL ADJUSTMENT
- NO SURREBUTTAL ADJUSTMENT
- NO SURREBUTTAL ADJUSTMENT
- NO SURREBUTTAL ADJUSTMENT
- NO SURREBUTTAL ADJUSTMENT
- Testimony, RLM And Schedule SURR RLM-9
- NO SURREBUTTAL ADJUSTMENT
- Testimony, RLM And Schedule SURR RLM-11

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Year 2002 (Company Schedule E-6)	Co. Sch. E-2	\$ 638,096	
2	Year 2003 (Company Schedule E-6)	Co. Sch. E-2	886,222	
3	Year 2004 (Company Schedule E-6)	Co. Sch. E-2	1,258,462	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 2,782,780	
5	Average Annual Operating Revenues	Line 4 / 3	927,593	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 1,855,187
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 7,690	
8	10% Of CWIP	Line 7 X 10%		\$ 769
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, P 12, C (D), L 14	\$ (193,941)	
10	Acc. Dep. Of Transportation Equipment	RLM-4, P 12, C (E), L 14	55,437	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ (138,504)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,717,452
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	24.0%	
14	Assessed Value	Line 12 X Line 13	\$ 412,188	
Property Tax Rates:				
15	Primary Tax Rate - 2004 Tax Notice	Co. Sch. C-2, Pg 3, L 16	11.66%	
16	Secondary Tax Rate - 2004 Tax Notice		0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	11.66%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 48,072
19	Test Year Adjusted Property Tax Expense - Rebuttal Filing	Co. Sch. C-1, Line 25		85,249
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ (37,177)
21	RUCO Adjustment (See SURR RLM-6, Column (C), Line 23)	Line 20		\$ (37,177)

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 12
REMOVAL OF UNNECESSARY/INAPPROPRIATE OPERATING EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT
1	Account No. 60403 - 02 Employee Benefits - Other	RUCO Workpaper RLM-9, Page 4, Line 6	\$ (268)
2	RUCO Adjustment (See RLM-6, Column (G), Line 5)	Line 1	<u>\$ (268)</u>
3	Account No. 62000 - 02 Material and Supplies	Company's Response To Staff Data Request 1.47	\$ (10)
4	RUCO Adjustment (See RLM-6, Column (G), Line 11)	Line 3	<u>\$ (10)</u>
5	Account No. 63600 - 02 Contract Services - Other	RUCO Corrected Addition Of Co. Adj. No. 5	\$ (7,576)
6		Company Incorrect Computation On Rebuttal Sch C-2, Pg 6	(6,500)
7	RUCO Adjustment (See RLM-6, Column (G), Line 12)	Sum of Lines 5 & 6	<u>\$ (1,076)</u>
8	Account No. 62200 - 02 Sewer Repair and Maintenance	Company's Response To Staff Data Request 1.47	\$ (35)
9	RUCO Adjustment (See RLM-6, Column (G), Line 15)	Line 8	<u>\$ (35)</u>
10	Account No. 65000 - 02 Transportation Expense	RUCO Workpaper RLM-9, Page 4, Line 8	\$ (282)
11	Account No. 65000 - 02 Transportation Expense	Company's Response To Staff Data Request 1.47	(116)
12	Total Adjustment To Transportation Expense	Sum Of Lines 10 & 11	<u>\$ (398)</u>
13	RUCO Adjustment (See RLM-6, Column (G), Line 17)	Line 12	<u>\$ (398)</u>
14	Account No. 62001 - 02 Office Materials and Supplies	Company Adj. # 4 Accepts RUCO Adjustment Of (\$538)	\$ -
15	Account No. 62001 - 02 Office Materials and Supplies	Company's Response To Staff Data Request 1.40	(74)
16	Account No. 62001 - 02 Office Materials and Supplies	Company's Response To Staff Data Request 1.45	(74)
17	Account No. 67501 - 02 Education	RUCO Workpaper RLM-9, Page 3, Line 4	(1,177)
18	Account No. 66000 - 02 Advertising	Company Adj. # 4 Accepts RUCO Adjustment Of (\$627)	-
19	Account No. 67500 - 02 Miscellaneous	RUCO Workpaper RLM-9, Page 3, Line 15	(36)
20	Total Adjustment To Miscellaneous Expenses	Sum Of Lines 14 Thru 19	<u>\$ (1,360)</u>
21	RUCO Adjustment (See RLM-6, Column (G), Line 20)	Line 20	<u>\$ (1,360)</u>
22	RUCO Adjustment (See RLM-6, Column (G))	Sum Of Lines 2, 4, 7, 9, 13 & 21	<u>\$ (3,147)</u>

SURREBUTTAL
EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 14
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. SURR RLM-5, Column (C), L26 + L24	\$ (28,860)
	LESS:		
2	Arizona State Tax	Line 11	(6,287)
3	Interest Expense	Note (A) Line 20	(61,366)
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (96,513)
5	Federal Tax Rate	Sch. SURR RLM-1, Pg 2, Col. (D), L34	26.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (25,089)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (28,860)
	LESS:		
8	Interest Expense	Note (A) Line 20	(61,366)
9	State Taxable Income	Line 7 - Line 8	\$ (90,226)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (6,287)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (25,089)
13	State Income Tax Expense	Line 11	(6,287)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (31,376)
15	Total Income Tax Expense Per Company Rebuttal Filing (Per Company Sch. C-1)		(31,928)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 552
17	RUCO Surrebuttal Adjustment (See SURR RLM-6, Col.(G), L24)	Line 16	\$ 552

NOTE (A):

Interest Synchronization:		
18	Adjusted Rate Base (Sch. SURR RLM-2, Col. (E), L15)	\$ 1,815,563
19	Weighted Cost Of Debt (Sch. RLM-12, Col. (F), L1)	3.38%
20	Interest Expense (L17 X L18)	\$ 61,366

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL'TION PER COMPANY	(B) RUCO ADJ'TS	(C) RUCO ADJUSTED CAPITAL'TION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	Long-Term Debt	\$ -	\$ -	\$ -	40.00%	8.45%	3.38%
2	Stockholder's Equity	\$ 1,593,605	\$ -	\$ 1,593,605	60.00%	9.04%	5.43%
3	TOTAL CAPITAL	<u>\$ 1,593,605</u>	<u>\$ -</u>	<u>\$ 1,593,605</u>	<u>100.00%</u>		
4	COST OF CAPITAL						<u>8.81%</u>

References:

- Column (A): Company Schedule D-1
- Column (B): Testimony, WAR
- Column (C): Column (A) + Column (B)
- Column (D): Column (C), Line Item / Total Capital (L3)
- Column (E): Testimony, WAR
- Column (F): Column (D) X Column (E)

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

LINE NO.	DESCRIPTION	(A) PRESENT RATES	(B) COMPANY PROPOSED	(C) RUCO PROPOSED	(D) RUCO PRECENTAGE INCREASE
MONTHLY FLAT RATE CHARGE					
CLASSES OF SERVICE					
1	Residential	\$ 20.00	\$ 25.99	\$ 21.55	7.75%
RV Parks					
2	Adobe Village (Per Space)	\$ 5.00	\$ 6.50	\$ 5.39	7.75%
3	Sunset Palm (Per Space)	\$ 5.00	\$ 6.50	\$ 5.39	7.75%
4	Sun Ridge (Per Space)	\$ 5.00	\$ 6.50	\$ 5.39	7.75%
5	Commercial	\$ 40.00	\$ 51.98	\$ 43.10	7.75%
6	REVENUES FROM EFFLUENT SALES	N/A	\$1.00 / M Gal.'s	\$1.00 / M Gal.'s	

PROOF OF RECOMMENDED REVENUE

	DESCRIPTION	(A) EFFLUENT DELIVERIES PER 1,000 GAL.'S	(B) ANNUALIZED CUSTOMER LEVEL	(C) RUCO PROPOSED MONTHLY RATES	(D) RUCO PROPOSED REVENUE
FLAT RATE CHARGES					
7	Residential Class Of Service		5,506	\$ 21.55	\$ 1,423,852
8	RV Park - Adobe Village		116	5.39	7,503
9	RV Park - Sunset Palm		116	5.39	7,503
10	RV Park - Sun Ridge		281	5.39	18,175
11	Commercial Class Of Service		30	43.10	15,516
REVENUES FROM EFFLUENT SALES					
Effluent Deliveries to Golf Courses:					
12	Mesa Del Sol Golf Course	31,294		\$1.00 / M Gal.'s	\$ 31,294
13	Las Barancas Golf Course	8,382		\$1.00 / M Gal.'s	8,382
14	Foothills Golf Course	72,094		\$1.00 / M Gal.'s	72,094
RUCO REVENUE ADJUSTMENT					
15	Imbalance Between RUCO Adjusted Bill Count And General Ledger				\$ (4,325)
16	Difference Between RLM-5 And RLM-1				(7)
17	TOTAL ANNUALIZED WASTEWATER REVENUE			Sum Of Lines 7 Thru 15	<u>\$ 1,579,986</u>
MISCELLANEOUS REVENUES					
18	Misc. Service Revenues		TY Misc. Rev. X 13.03% Increase		\$ 95,212
19	Other Wastewater Revenues (Company Workpapers)				16,464
20	TOTAL MISCELLANEOUS REVENUE			Sum Of Lines 18 And 19	<u>\$ 111,676</u>
21	TOTAL PROPOSED OPERATING REVENUE (See SURRRML-5, Col. (E), Line 4)			Sum Of Lines 17 & 20	<u>\$ 1,691,662</u>
22	Required Revenue		As Per SURR RLM-1, Page 1, Column (B), Line 10		1,691,662
23	Difference			Line 21 - Line 22	<u>\$ (0)</u>

FAR WEST WATER AND SEWER COMPANY

DOCKET NO. WS-03478A-05-0801

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 13, 2006

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my testimony is to respond to Far West Water & Sewer Company's ("Far West" or "Company") rebuttal testimony on RUCO's recommended rate of return on invested capital (including RUCO's recommended capital structure and cost of debt) for the Company's wastewater operation located in Yuma County.

Q. Will your surrebuttal testimony address any of the rate base, required revenue or rate design issues in the case?

A. No. Those issues will be addressed in the surrebuttal testimony of RUCO witness Rodney L. Moore.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on April 11, 2006, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission") on Far West's application requesting a permanent rate increase ("Application"). My direct testimony addressed the cost of capital issues associated with the case.

1 Q. How is your surrebuttal testimony organized?

2 A. My surrebuttal testimony contains three parts: the introduction that I have
3 just presented, a summary of Far West's rebuttal testimony, and a section
4 on the cost of capital issues.

5
6 **SUMMARY OF FAR WEST'S REBUTTAL TESTIMONY**

7 Q. Have you reviewed Far West's rebuttal testimony?

8 A. Yes. I have reviewed the Company's rebuttal testimony, which was filed
9 on May 9, 2006.

10
11 Q. Please summarize the Company's rebuttal testimony as it pertains to
12 those aspects of the case that you were involved with.

13 A. The Company's cost of capital witness, Mr. Thomas J. Bourassa,
14 disagrees with my recommendations on capital structure, cost of debt and
15 cost of common equity and is critical of the methods that I used to derive
16 the 9.56 percent cost of common equity that I recommended in my direct
17 testimony.

18
19 **COST OF CAPITAL**

20 Q. Briefly summarize the positions of the parties to the case in regard to
21 capital structure and cost of debt.

22 A. The Company is still proposing a capital structure comprised of 100
23 percent common equity. ACC Staff is recommending a hypothetical

capital structure comprised of 41.5 percent debt and 58.5 percent common equity with a weighted cost of debt of 5.70 percent. RUCO is continuing to recommend a capital structure comprised of 40 percent debt and 60 percent common equity, with a weighted cost of debt of 8.45 percent.

Q. Have you made any changes to the cost of common equity that you recommended in your direct testimony?

A. Yes. I have revised my recommended cost of common equity from 9.56 percent to 9.04 percent. The 9.04 percent figure was derived from an updated DCF analysis, which used Value Line data published on April 28, 2006 (Exhibit 1) and updated data from Zacks Investment Research, Inc. (Exhibit 2). My revised 9.04 percent estimate takes into consideration forward-looking Value Line projections for the time frame that runs from 2006 through 2011. Surrebuttal Schedules WAR-1 through WAR-9 will provide support for my revised 9.04 percent figure.

Q. Please summarize the results of your revised cost of capital analysis.

A. A summary of my revised cost of capital analysis, on water companies, is as follows:

<u>METHOD</u>	<u>RESULTS</u>
DCF	9.04%
CAPM	8.92% – 10.32%

1 Q. Has Far West made any changes to the Company-proposed cost of
2 common equity as a result of the Value Line update?

3 A. The Company's witness stated that he considered the updated Value Line
4 data but is still proposing a 10.50 percent cost of common equity.
5

6 Q. Please summarize the cost of common equity recommendations of each
7 of the parties to the case.

8 A. The costs of common equity being recommended are as follows:
9

10 FAR WEST 10.50%

11 ACC Staff 9.30%

12 RUCO (revised) 9.04%

13
14 The weighted costs of capital being recommended by the parties to the
15 case are as follows:
16

17 FAR WEST 10.50%

18 ACC Staff 7.80%

19 RUCO (revised) 8.81%

Capital Structure

Q. Does the Company's witness recognize that the absence of financial risk in the Company-proposed capital structure, comprised of 100 percent common equity, merits a lower weighted cost of capital?

A. No. The Company's witness believes that a capital structure comprised of 100 percent common equity is appropriate given Far West's size and the firm-specific risks that the Company faces.

Q. Please address the Company's position that your recommended capital structure is inappropriate given Far West's size.

A. As I stated in my direct testimony, the size argument has been consistently rejected by the Commission in past rate case proceedings. For all practical purposes, Far West is no different from the many water and wastewater systems that comprise the water utilities used in my sample. These systems face the same types of risks and deal with the same types of problems that Far West does.

Q. Do you believe that your recommended hypothetical capital structure, comprised of 40.0 percent debt and 60.0 percent equity, is appropriate given the firm-specific risks that the Company faces?

A. Yes. In fact, my recommended hypothetical capital structure is actually heavier in equity than the average capital structure of my sample group, which was comprised of approximately 50.0 percent debt and 50.0 percent

1 equity. This gives Far West a higher weighted cost of capital than the
2 utilities included in my sample, which have an average weighted cost of
3 capital of 7.76 percent based on the results of my analysis (Surrebuttal
4 Schedule WAR-9). This 7.76 percent average for my sample is 105 basis
5 points lower than my revised recommended weighted average cost of
6 capital of 8.81 percent for Far West.

7
8 Q. Please comment on Mr. Bourassa's description of your hypothetical
9 capital structure as "fiction."

10 A. I believe a more appropriate description would be "forward-looking" given
11 the fact that, according to Company witness Paula S. Capestro, Far West
12 expects to be filing an emergency financing application in the immediate
13 future for approval of long-term debt (Capestro rebuttal testimony, Pages
14 4 and 5).

15
16 Q. Do you believe your recommendations on capital structure and cost of
17 equity are still appropriate given the information on the Company's plans
18 to file an emergency financing application?

19 A. Yes. I have not seen the filing yet so I do not know what Far West will be
20 requesting. However, I think that it is important to reiterate the fact that
21 my revised 9.04 percent cost of common equity was derived from a
22 sample of utilities which had less equity (i.e. approximately 50.0 percent)
23 in their capital structures than the 60.0 percent I am continuing to

1 recommend in this case. It is also important to point out that I am not
2 making any downward adjustment to my revised 9.01 percent figure
3 despite the fact that I am recommending a capital structure comprised of
4 60.0 percent common equity for the Company. Taking these facts into
5 consideration, I see no reason why my revised recommended cost of
6 common equity would not be appropriate so long as the Commission does
7 not approve a level of long-term debt that would result in a capital
8 structure that contains debt in excess of 40.0 percent for Far West.

9
10 **Cost of Debt**

11 Q. What is the Company's position on your recommended hypothetical cost
12 of debt?

13 A. The Company believes that my recommended 8.45 percent cost of debt is
14 "somewhat low" but is more realistic than the 5.7 percent being
15 recommended by ACC Staff.

16
17 Q. Based on the testimony presented to date, do you believe that your 8.45
18 percent recommended hypothetical cost of debt is still reasonable?

19 A. Yes. CoBank, which is a major lender to rural co-operatives and to
20 investor-owned water and wastewater companies operating in the Arizona
21 jurisdiction, uses 7.00 percent as a base rate in its example on how it
22 establishes the costs of loans on its web site¹. Arizona-American Water

¹ <http://www.cobank.com/financials/interestrates.html>

1 Company recently filed a financing application with the ACC stating that it
2 intended to borrow funds from American Water Capital Corporation at a
3 rate of 5.865 percent not to exceed 6.50 percent. My recommended 8.45
4 percent hypothetical cost of debt for Far West is 258 to 145 basis points
5 higher than the aforementioned examples of what a going rate of interest
6 might be at this time.

7
8 **Cost of Common Equity**

9 Q. Has Far West made any changes to the Company-proposed cost of
10 common equity of 10.50 percent?

11 A. No. As I explained earlier the Company's witness stated on page 22 of
12 his rebuttal testimony that he considered the April 28, 2006 Value Line
13 update, however a review of his rebuttal testimony schedules reveal that
14 he has not incorporated the updated Value Line projections into his DCF
15 models.

16
17 Q. Please explain.

18 A. A comparison of Mr. Bourassa's Rebuttal Schedule D-4.7 and my
19 Surrebuttal Testimony Schedule WAR-5 will reveal that he has not
20 updated the retention ratio figures that are used to calculate the "br"
21 portion of the DCF's growth component ("g"). This results in a higher level
22 of "br" growth (which, in Mr. Bourassa's model only considers the long-
23 range forecast). Mr. Bourassa's retention ratio was calculated with Value

1 Line projections for the 2008-10 period that were published on January 27,
2 2006 as opposed to the 2009-11 projections published on April 28, 2006.
3 In short, his br figure was calculated by multiplying a retention ratio using
4 outdated January 27, 2006 data times a rate of return using updated April
5 28, 2006 data. He has also failed to update the data used in his
6 calculation of the "sv" portion of the DCF's g component. The number of
7 projected shares outstanding, used in his "sv" calculation, are 2008-10
8 projections published in Value Lines January 27, 2006 Ratings & Reports
9 update on the Water Utility Industry as opposed to the April 28, 2006
10 edition. As a result of this, Mr. Bourassa relied on inflated constant growth
11 DCF results in arriving at his 10.50 percent cost of common equity
12 estimate.

13
14 Q. How did ACC Staff's cost of capital witness arrive at his final cost of equity
15 estimate of 9.30 percent?

16 A. ACC Staff's witness arrived at his final estimate of 9.30 percent by
17 averaging the results of his DCF and CAPM models.

18
19 Q. What would your revised cost of common equity estimate be if you were to
20 average the results of your DCF and CAPM models as ACC Staff has?

21 A. Averaging the results of my revised water company sample DCF result of
22 9.04 percent, and my revised water company sample CAPM result, using
23 a geometric mean, of 8.92 percent produces an estimate of 8.98 percent,

1 which is 32 basis points lower than ACC Staff's 9.30 percent estimate and
2 152 basis points lower than the Company's 10.50 percent estimate.
3 Averaging the results of my revised water company sample DCF result of
4 9.04 percent, and my water company sample CAPM result, using an
5 arithmetic mean, of 10.32 percent produces an estimate of 9.68 percent,
6 that is 38 basis points higher than ACC Staff's 9.30 percent estimate and
7 82 basis points lower than the Company's 10.50 percent estimate. An
8 average of my revised water company DCF result of 9.04 percent and
9 both of my revised water company CAPM results of 10.32 percent and
10 8.92 percent results in an estimate of 9.43 percent, which is 13 basis
11 points higher than ACC Staff's 9.30 percent estimate and 107 basis points
12 lower than the Company's 10.50 percent estimate.

13
14 Q. Is the Company's witness correct when he states that you believe that the
15 risk premium method for estimating the cost of common equity has been
16 replaced by forward-looking finance models?

17 A. No. Mr. Bourassa has misquoted my testimony. A review of page 55 of
18 my direct testimony will reveal that I stated that the "risk premium
19 methodology is an offshoot of the CAPM" (which is a forward-looking
20 model), and that "the *comparable earnings method* [emphasis added],
21 though used by most analysts to some degree, has been largely replaced
22 by forward-looking methods such as DCF and CAPM."

1 Q. Do you believe that Southwest Water Company ("SWWC") should have
2 been excluded from your sample based on its percentage of revenues
3 from water utility services as claimed by the Company's cost of capital
4 witness?

5 A. No. The Company's witness is attempting to make an argument that my
6 DCF dividend yield estimate is biased downward as a result of my
7 inclusion of SWWC. Even though it is true that SWWC's water utilities
8 make up approximately 38 percent of total revenues, the majority of
9 SWWC's remaining revenues are derived from activities that are closely
10 related to the provision of regulated water and wastewater services (i.e.
11 equipment maintenance and repair, sewer pipeline cleaning, billing and
12 collection services, and state-certified water and wastewater laboratory
13 analysis on a contract basis) as opposed to highly speculative activities
14 that are totally unrelated to the water and wastewater industry. For this
15 reason I saw no need to exclude SWWC from my sample. My revised
16 DCF estimate of 9.15 percent for SWWC is actually 42 basis points higher
17 than what I estimated in my direct testimony and is identical to my revised
18 DCF estimate for American States Water Company ("AWR"). In fact, I
19 believe it is somewhat interesting that SWWC, which actually does do
20 business in the competitive arena, had a slightly higher estimated cost of
21 equity than the other three water utilities in my sample (Surrebuttal
22 Schedule WAR-2).

1 Q. Please address the Company's position that your estimates of external
2 growth are also biased downward.

3 A. The Company's cost of capital witness has taken issue with my calculation
4 of "v" for the external growth rate estimate portion of the DCF's growth
5 component. This calculation takes into consideration that, while in theory
6 a utility's stock price should move toward a market to book ratio of 1.0 if
7 regulators authorize a rate of return that is equal to a utility's cost of
8 capital, in reality a utility will continue to issue shares of stock that are
9 priced above book value.

10 As I explained on pages 17 through 18 of my direct testimony, this same
11 assumption was incorporated into the DCF analysis performed by Mr.
12 Stephen Hill, ACC Staff's cost of cost of capital witness in the Southwest
13 Gas rate case proceeding. Mr. Hill used the same methods that I have
14 used in arriving at the inputs for his DCF model. His final recommendation
15 for Southwest Gas Corporation, which was adopted by the Commission,
16 was largely based on the results of his DCF analysis, which incorporated
17 the same valid market-to-book ratio assumption that I have used
18 consistently.

19
20
21
22 ...
23

1 Q. Please discuss the Company's criticism of your testimony that one of the
2 desired effects of regulation is to achieve a market-to-book ratio of 1.0 on
3 the common stock of an investor owned utility.

4 A. My direct testimony sets forth the premise that the market value of a
5 utility's stock will tend to move toward book value, or a market-to-book
6 ratio of 1.0, if regulators allow a rate of return that is equal to the cost of
7 capital of firms with similar risk. This premise is recognized among
8 practitioners who have testified in cost of capital proceedings².

9 A utility's market price should equal its book price over the long run if
10 regulators allow a rate of return that is equal to the utility's cost of capital.

11 That is assuming that the utility's rate of return ("ROR") is comparable to
12 the rates of return of other firms in the same risk class. For example, if a
13 hypothetical utility's book price is \$20.00 per share and regulators adopt a
14 rate of return that is equal to the utility's cost of capital of 10.00 percent,
15 the utility will earn \$2.00 per share ("EPS"). With earnings of \$2.00 per
16 share, and a market required rate of return on equity of 10.00 percent, for
17 firms in the utility's risk class, the market price of the utility's stock will set
18 at \$20.00 per share ($\$2.00 \text{ EPS} \div 10.00\% \text{ ROR} = \$20.00 \text{ per share price}$).

19 If the utility records earnings that are higher than the earnings of other
20 firms with similar risk, the market value of the utility's shares will increase
21 accordingly ($\$2.50 \text{ EPS} \div 10.00\% \text{ ROR} = \25.00 per share). On the other

² Carleton, Willard T., Thompson, Howard E., and Morin, Roger A.

1 hand, if the utility posts lower earnings, the stock's market price will fall
2 below book value ($\$1.50 \text{ EPS} \div 10.00\% \text{ ROR} = \15.00 per share).

3 Because of economic forces beyond the control of regulators, it is not
4 reasonable to assume that the utility will have earnings that match those
5 of firms of similar risk in every year of operation. In some years, earnings
6 may drop causing the market-to-book ratio to fall below 1.0, while in other
7 years the utility may have earnings that exceed those of other firms in its
8 risk classification. However, over the long run the utility's earnings should
9 average out to the earnings that are expected based on its level of risk.
10 These average earnings over time will result in a market-to-book ratio of
11 1.0. A 1.0 ratio may never be achieved in practice and many investors
12 may not even care what the market-to-book ratio is as long as they
13 receive their required rate of return.

14
15 Q. Does the investment community at large recognize the fact that regulated
16 utilities, such as Far West, are different from non-regulated entities in
17 terms of how they obtain their earnings?

18 A. Yes, I believe more so than the Company's cost of capital witness
19 probably would like to admit. For example, over the past year several
20 articles on investing in the water infrastructure industry have appeared on
21 the Internet, such as MSN Money/CNBC, and in the print and online
22 editions of Forbes magazine (Attachment A). In the MSN Money/CNBC

1 piece³ (Attachment B), author Jon D. Markman, a weekly columnist for
2 CNBC, pitched his suggestions for investing in what some believe to be a
3 coming global water shortage. In regard to domestic utilities, Markman
4 had this to say:

5 "Virtually all of the U.S. water utility stocks are regulated by
6 states and counties, which makes them pretty dull. Govern-
7 mental entities typically give utilities a monopoly in a geo-
8 graphic region, then set their profit margin a smidge above
9 costs. Just about the only distinguishing factor among them
10 are the growth rates of their regions and their ability to
11 efficiently manage their underground pipe and pumping infra-
12 structure."
13

14
15 Even though investors are aware of these facts, it appears that it has not
16 deterred them from investing in water/wastewater utility stocks according
17 to John Dickerson, an analyst with Summit Global Management of San
18 Diego who offered these observations in the Markman article:

19 "Although not widely appreciated, water has been recog-
20 nized by conservative investors as an investment opportunity
21 -- and it has rewarded them. Over the past 10 years, the
22 Media General water utilities index is up 133%, double the
23 Return of the Dow Jones Utilities Index. Over the past five
24 Years, water utilities are up 32% -- clobbering the flat returns
25 of both the Dow Jones Utilities and the Dow Industrials. One
26 of water's key long-term value drivers as an investment,
27 according to Dickerson: Demand is not affected by inflation,
28 recession, interest rates or changing tastes."
29

30

³ Markman, Jon D, "Invest in the Coming Global Water Shortage," MSN.com, January 12, 2005,
<http://moneycentral.msn.com/content/P102152.asp>.

1 Both Mr. Markman's and Mr. Dickerson's views are shared by Jeffrey R.
2 Kosnett, the senior editor of Kiplinger's Personal Finance, who had this to
3 say in his February 21, 2006 Kiplinger.com column⁴ (Attachment C):

4 "If only there were more water stocks. The few publicly traded
5 water companies are pumping marvelous total returns: 25%
6 a year over the past ten years at industry giant Aqua America
7 (symbol WTR) and close to that at others, such as California
8 Water Services (CWT), American States Water (AWR) and
9 SJW Corp. (SJW). Water stocks are also remarkably con-
10 sistent, with double-digit annualized total returns common
11 across one, three, five and ten years."
12

13
14 Mr. Kosnett went on to state:

15 "Water companies' returns are regulated, so the companies
16 are classified as public utilities. But for investors, they're more
17 like dividend-paying growth stocks -- and not just because of
18 their past performance. Water usage expands with population
19 and housing growth, and water companies are also able to
20 grow by making acquisitions. California Water started expand-
21 ing to other states in 1999 when it bought into Washington and
22 says it is always scouting around for more opportunities."
23

24
25 What I believe is interesting here is that water/wastewater stocks are
26 performing well despite the fact that they are typically awarded rates of
27 return that only provide them with a thin operating margin over their costs.
28 This being the case there is no need to award higher returns on common
29 equity such as the 10.50 percent figure advocated by the Company's cost
30 of capital witness.
31

⁴ Kosnett, Jeffrey R, "California Water: Refreshing," Kiplinger.com, February 21, 2006,
<http://www.kiplinger.com/personalfinance/columns/picks/archive/2006/pick0221.htm>.

1 Q. Can you cite any other reasons why you believe that your calculation of
2 "v," for the external growth rate estimate portion of the DCF's growth
3 component, should continue to be relied on despite the Company's
4 position on market-to-book ratios?

5 A. Yes. There is a good possibility that water and wastewater utility stock
6 prices are inflated and that there is no need for these utilities to pay out as
7 much as they are in dividends. On March 24, 2006, RWE AG announced
8 its intentions to sell American Water on the open market through an initial
9 public offering ("IPO") process. Once the IPO is completed, American
10 Water, which was one of the largest and most successful of all of the U.S.
11 water utilities prior to RWE AG's acquisition of it, will be traded on a stock
12 market as the other water utilities in my sample are. In the November 8,
13 2005 online edition of Forbes magazine John Dickerson, the same analyst
14 interviewed in the Markman article just cited, stated that he believed that
15 this is good news for investors, because it will bring down the inflated
16 values of U.S. water utilities. In addition to bringing water and wastewater
17 utility stock prices in line with their book values, the correction anticipated
18 by Mr. Dickerson would allow water utilities to still offer attractive yields to
19 investors without having to pay out the same percentage of their earnings
20 in dividends that they do now.

1 Q. Did the Company's cost of capital witness take into consideration any of
2 the concepts or information you have cited above into in developing the
3 inputs for his DCF model?

4 A. No. As a result of this and his over-reliance on analyst's projections,
5 which I noted in my direct testimony, his estimates are upwardly biased.
6 This included the results of his analysis presented in his rebuttal
7 testimony. I believe that analyst's estimates are just that, estimates.
8 Long-term estimates should be viewed and evaluated objectively against
9 historical results in order to arrive at balanced and reasonable inputs for
10 any model used in the determination of a cost of equity as opposed to
11 blind reliance on analyst's estimates. The Company's blind reliance on
12 these estimates is a primary reason for the difference between my 9.56
13 percent recommendation and the Company-proposed estimate of 10.50
14 percent.

15
16 Q. Please comment on the Company's rebuttal testimony on the CAPM
17 methodology for determining cost of equity.

18 A. The Company's cost of capital witness seems to want to have things both
19 ways in regard to the CAPM methodology. After he questions the use
20 CAPM in rate case proceedings and explains why he believes that the
21 reliance on published betas is problematic, he then goes on to perform a
22 CAPM analysis using his preferred inputs. This produces a 10.60 percent
23 result that is slightly higher than the 10.44 percent result obtained in my

1 model using an arithmetic mean. He then criticizes me for not
2 recommending the higher 10.44 percent result obtained in my CAPM
3 analysis and states that the use of a geometric mean is erroneous.

4
5 Q. Please explain why Mr. Bourassa's statement regarding the use of a
6 geometric mean in your CAPM analysis as being erroneous is unfounded.

7 A. As I stated in my direct testimony there is an on-going debate as to which
8 is the better average to rely on. The best argument in favor of the
9 geometric mean is that it provides a truer picture of the effects of
10 compounding on the value of an investment when return variability exists.
11 This is particularly relevant in the case of the return on the stock market,
12 which has had its share of ups and downs over the 1926 to 2004
13 observation period used in my CAPM analysis.

14 The following example may help to illustrate the differences between the
15 two averages. Suppose you invest \$100 and realize a 20.0 percent return
16 over the course of a year. So at the end of year 1, your original \$100
17 investment is now worth \$120. Now lets say that over the course of a
18 second year you are not as fortunate and the value of your investment
19 falls by 20.0 percent. As a result of this, the \$120 value of your original
20 \$100 investment falls to \$96. An arithmetic mean of the return on your
21 investment over the two-year period is zero percent calculated as follows:
22
23

(year 1 return + year 2 return) ÷ number of periods =

(20.0% + -20.0%) ÷ 2 =

(0.0%) ÷ 2 = 0.0%

The arithmetic mean calculated above would lead you to believe that you didn't gain or lose anything over the two-year investment period and that your original \$100 investment is still worth \$100. But in reality, your original \$100 investment is only worth \$96. A geometric mean on the other hand calculates a compound return of negative 2.02 percent as follows:

(year 2 value ÷ original value)^{1/number of periods} - 1 =

(\$96 ÷ \$100)^{1/2} - 1 =

(0.96)^{1/2} - 1 =

(0.9798) - 1 =

-0.0202 = -2.02%

So the geometric mean calculation illustrated above provides a truer picture of what happened to your original \$100 over the two-year investment period.

As can be seen in the preceding example, in a situation where return variability exists, a geometric mean will always be lower than an arithmetic

1 mean, which probably explains why utility consultants typically put up a
2 strenuous argument against the use of a geometric mean.

3
4 Q. Is the Company's cost of capital witness correct in his criticism of CAPM?

5 A. I believe his argument is unwarranted and outdated. While it is true that
6 the use of CAPM in rate case proceedings first came under fire twenty-five
7 years ago, that hasn't stopped cost of capital practitioners from using the
8 model or public utility commissions from accepting the model's results.
9 Although I have always used CAPM in a supporting role, both at RUCO
10 and at the ACC, two other expert witnesses (both of whom hold doctoral
11 degrees) that filed testimony in recent Arizona-American cases⁵ have
12 chosen to use CAPM as their primary method for estimating their
13 recommended costs of equity.

14
15 Q. Do you ever allow the results of your CAPM analysis to influence your final
16 recommended cost of equity, which was derived from your DCF analysis?

17 A. Generally speaking no. If the Company's witness were to review copies of
18 prior testimony I have filed with the ACC, he would find that for the most
19 part I have relied on my DCF results, even when my CAPM analyses,
20 using both the arithmetic and the geometric means, produced lower
21 estimates.

22

⁵ Docket No.'s W-01303A-05-0405 and WS-01303A-06-0014.

1 Q. Why were your revised CAPM results lower than the results you exhibited
2 in your direct testimony.

3 A. Despite the fact that my six-week average of yields on the 91-day T-bill
4 instrument (used as a risk-free rate of return) increased from 4.54 percent
5 to 4.74 percent, the average beta coefficient for my water company
6 sample declined from 0.75 to 0.74. This is because Value line's published
7 beta on AWR declined from 0.75 to 0.70. Both of these factors, including
8 a drop in the arithmetic mean market return from 12.40 percent to 12.30
9 percent, contributed to my lower CAPM results.

10
11 Q. Has any of the rebuttal testimony presented by Far West's witnesses
12 convinced you to make adjustments to your recommended cost of
13 common equity?

14 A. No.

15
16 Q. Does your silence on any of the issues or positions addressed in the
17 rebuttal testimony of the Company's witnesses constitute acceptance?

18 A. No, it does not.

19
20 Q. Does this conclude your surrebuttal testimony on Far West?

21 A. Yes, it does.

FAR WEST WATER AND SEWER COMPANY

DOCKET NO. WS-03478A-05-0801

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WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) RUCO WEIGHTED COST
1	DEBT	40.00%	8.45%	3.38%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	60.00%	9.04%	5.43%
4	TOTAL CAPITALIZATION	100.00%		

5 WEIGHTED COST OF CAPITAL

8.81%

REFERENCES:

COLUMN (A): DIRECT TESTIMONY WAR
COLUMN (B): COLUMN (A) ÷ COLUMN (A), LINE 4
COLUMN (C): COLUMN (A) x COLUMN (B)

FAR WEST WATER AND SEWER COMPANY
TEST YEAR ENDED DECEMBER 31, 2004
COST OF CAPITAL SUMMARY

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SURREBUTTAL SCHEDULE WAR - 1
PAGE 2 OF 2

SAMPLE COMPANIES APPROXIMATE WEIGHTED COSTS OF DEBT

LINE NO.	STOCK SYMBOL	COMPANY	WEIGHTED COSTS
1	AWR	AMERICAN STATES WATER CO.	7.12%
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.51%
3	SWWC	SOUTHWEST WATER COMPANY	6.70%
4	WTR	AQUA AMERICA, INC.	5.74%
5	CTWS	CONNECTICUT WATER SERVICES, INC.	5.13%
6	MSEX	MIDDLESEX WATER COMPANY	5.66%
7	SJW	SJW CORP.	7.23%
8	YORW	YORK WATER COMPANY	7.48%
9	AVERAGE OF APPROXIMATE WEIGHTED COSTS OF DEBT (a)		6.45% AVERAGE OF LINES 1 THRU 8
10	ADD: 200 BASIS POINTS		2.00% DIRECT TESTIMONY WAR
11	RUCO RECOMMENDED COST OF DEBT		8.45% LINE 9 + LINE 10

REFERENCE:
MOST RECENT SEC 10-K FILINGS

NOTE:
(a) COSTS ARE APPROXIMATE AND DO NOT INCLUDE THE FOLLOWING:
DEBT ISSUES THAT DID NOT HAVE STATED YIELDS; AND
DEBT ISSUES WITH ZERO RATES OF INTEREST.
IN THE CASE OF ISSUES WITH VARIABLE RATES OF INTEREST THE HIGH END OF THE VARIABLE RANGE WAS USED.

FAR WEST WATER AND SEWER COMPANY
TEST YEAR ENDED DECEMBER 31, 2004
DCF COST OF EQUITY CAPITAL

DOCKET NO. WS-03478A-05-0801
SURREBUTTAL SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.30%	+	6.81%	=	9.11%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.73%	+	6.10%	=	8.83%
3	SWWC	SOUTHWEST WATER COMPANY	1.35%	+	7.80%	=	9.15%
4	WTR	AQUA AMERICA, INC.	1.74%	+	7.34%	=	9.08%
5	WATER COMPANY AVERAGE						9.04%

**FAR WEST WATER AND SEWER COMPANY
TEST YEAR ENDED DECEMBER 31, 2004
DIVIDEND YIELD CALCULATION**

**DOCKET NO. WS-03478A-05-0801
SURREBUTTAL SCHEDULE WAR - 3**

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	+	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	\$0.90	+	\$39.11	=	2.30%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.15	+	42.12	=	2.73%
3	SWWC	SOUTHWEST WATER COMPANY	0.21	+	15.43	=	1.35%
4	WTR	AQUA AMERICA, INC.	0.43	+	24.85	=	1.74%
5	WATER COMPANY AVERAGE						2.03%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/28/2006

COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 03/27/2006 TO 05/19/2006

COLUMN (C): STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com)
COLUMN (A) + COLUMN (B)

FAR WEST WATER AND SEWER COMPANY
TEST YEAR ENDED DECEMBER 31, 2004
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. WS-03478A-05-0801
SURREBUTTAL SCHEDULE WAR - 4
PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	4.25%	+	2.56%	=	6.81%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.25%	+	2.85%	=	6.10%
3	SWWC	SOUTHWEST WATER COMPANY	6.50%	+	1.30%	=	7.80%
4	WTR	AQUA AMERICA, INC.	6.00%	+	1.34%	=	7.34%
5	WATER COMPANY AVERAGE						7.01%

REFERENCES:

COLUMN (A): SURREBUTTAL TESTIMONY, WAR
COLUMN (B): SURREBUTTAL SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

FAR WEST WATER AND SEWER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2004
 DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. WS-03478A-05-0801
 SURREBUTTAL SCHEDULE WAR - 4
 PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $\{ [((M \div B) + 1) \div 2] - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	4.00%	$\{ [((2.28) + 1) \div 2] - 1 \}$	= 2.56%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.75%	$\{ [((2.52) + 1) \div 2] - 1 \}$	= 2.85%
3	SWWC	SOUTHWEST WATER COMPANY	2.00%	$\{ [((2.30) + 1) \div 2] - 1 \}$	= 1.30%
4	WTR	AQUA AMERICA, INC.	1.00%	$\{ [((3.68) + 1) \div 2] - 1 \}$	= 1.34%
5	WATER COMPANY AVERAGE				2.01%

REFERENCES:

COLUMN (A): SURREBUTTAL TESTIMONY, WAR
 COLUMN (B): VALUE LINE INVESTMENT SURVEY
 - RATINGS & REPORTS DATED 04/28/2006
 COLUMN (C): COLUMN (A) x COLUMN (B)

FAR WEST WATER AND SEWER COMPANY
TEST YEAR ENDED DECEMBER 31, 2004
DIVIDEND GROWTH COMPONENTS

DOCKET NO. WS-03478A-05-0801
SURREBUTTAL SCHEDULE WAR - 5

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2001	0.3556	10.10%	3.59%	13.22	15.12	
2			2002	0.3507	9.50%	3.33%	14.05	15.18	
3			2003	-0.1282	5.60%	-0.72%	13.97	15.21	
4			2004	0.1524	6.60%	1.01%	15.01	16.77	
5			2005	0.3233	8.50%	2.75%	15.72	16.80	
6			GROWTH 2001 - 2005			1.99%	4.50%		2.67%
7			2006	0.3724	8.50%	3.17%		17.50	4.17%
8		CALIFORNIA WATER SERVICE GROUP	2007	0.4129	9.00%	3.72%		18.25	4.23%
9			2009-11	0.4667	9.00%	4.20%	5.00%	20.50	4.06%
10									
11	CWT		2001	-0.1915	7.20%	-1.38%	12.95	15.18	
12			2002	0.1040	9.50%	0.99%	13.12	15.18	
13			2003	0.0744	7.90%	0.59%	14.44	16.93	
14			2004	0.2260	9.00%	2.03%	15.66	18.37	
15			2005	0.2245	9.30%	2.09%	15.98	18.39	
16			GROWTH 2001 - 2005			0.86%	1.50%		4.91%
17		SOUTHWEST WATER COMPANY	2006	0.3235	9.00%	2.91%		19.00	3.32%
18			2007	0.3371	10.50%	3.54%		19.50	2.97%
19			2009-11	0.3222	9.00%	2.90%	5.00%	22.00	3.65%
20									
21	SWWC		2001	0.6667	11.40%	7.60%	3.84	14.17	
22			2002	0.6154	9.70%	5.97%	4.27	14.35	
23			2003	0.6364	9.10%	5.79%	4.90	16.17	
24			2004	0.2174	3.60%	0.78%	6.17	20.36	
25			2005	0.4118	5.00%	2.06%	6.49	22.33	
26			GROWTH 2001 - 2005			4.44%	14.00%		12.04%
27		AQUA AMERICA, INC.	2006	0.4762	6.00%	2.86%		23.00	3.00%
28			2007	0.5294	7.00%	3.71%		23.00	1.49%
29			2009-11	0.6947	9.50%	6.60%	7.00%	24.00	1.45%
30									
31	WTR		2001	0.4118	12.40%	5.11%	4.15	113.97	
32			2002	0.4074	12.70%	5.17%	4.36	113.19	
33			2003	0.3860	10.20%	3.94%	5.34	123.45	
34			2004	0.4219	10.70%	4.51%	5.89	127.18	
35			2005	0.4366	11.20%	4.89%	6.30	128.97	
36			GROWTH 2001 - 2005			4.72%	11.00%		3.14%
37			2006	0.4286	11.50%	4.93%		130.00	0.80%
38			2007	0.4302	12.00%	5.16%		131.00	0.78%
39			2009-11	0.4500	13.00%	5.85%	8.00%	134.00	0.77%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 04/28/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	(A)	(B)	(C)		(D)		(E)		(F)			
		<div> <div> <div>(br) + (sv)</div> <div>ZACKS EPS</div> </div> </div>	<div> <div>EPS</div> <div>DPS</div> </div>	<div> <div>EPS</div> <div>DPS</div> </div>	<div> <div>BVPS</div> <div>DPS</div> </div>	<div> <div>BVPS</div> <div>ZACKS AVGS.</div> </div>	<div> <div>EPS</div> <div>DPS</div> </div>	<div> <div>EPS</div> <div>DPS</div> </div>					
1	AWR	6.81%	6.00%	8.00%	1.00%	5.00%	-1.00%	1.00%	4.50%	3.50%	-0.37%	0.95%	4.43%
2	CWT	6.10%	9.00%	4.50%	1.00%	5.00%	-4.00%	1.00%	1.50%	2.57%	11.83%	0.44%	5.40%
3	SWWC	7.80%	5.50%	18.00%	8.00%	7.00%	1.50%	10.00%	14.00%	9.14%	-5.15%	9.33%	14.02%
4	WTR	7.34%	9.00%	11.00%	10.00%	8.00%	8.50%	6.50%	11.00%	9.14%	8.62%	7.46%	11.00%
5				10.38%	5.00%	6.25%	1.25%	4.63%	7.75%		3.73%	4.52%	8.71%
6	AVERAGES	7.01%	7.38%		7.21%			4.54%		6.09%		5.65%	

COLUMN (A): SURREBTUTTAL SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/28/2006
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/28/2006
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 04/28/2006

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)					(B) EXPECTED RETURN
		k	=	r _f	+	[β x (r _m - r _f)]	=
1	AWR	k	=	4.74%	+	[0.70 x (10.40% - 4.74%)]	= 8.70%
2	CWT	k	=	4.74%	+	[0.75 x (10.40% - 4.74%)]	= 8.99%
3	SWWC	k	=	4.74%	+	[0.70 x (10.40% - 4.74%)]	= 8.70%
4	WTR	k	=	4.74%	+	[0.80 x (10.40% - 4.74%)]	= 9.27%
5	WATER COMPANY AVERAGE					<u>0.74</u>	<u>8.92%</u>

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY
 r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/14/2006 THROUGH 05/19/2006 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2006 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)					(B)	
		k	=	r _f	+	[β x (r _m - r _f)]	=	EXPECTED RETURN
1	AWR	k	=	4.74%	+	[0.70 x (12.30% - 4.74%)]	=	10.03%
2	CWT	k	=	4.74%	+	[0.75 x (12.30% - 4.74%)]	=	10.41%
3	SWWC	k	=	4.74%	+	[0.70 x (12.30% - 4.74%)]	=	10.03%
4	WTR	k	=	4.74%	+	[0.80 x (12.30% - 4.74%)]	=	10.79%
5	WATER COMPANY AVERAGE					0.74		10.32%

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE:

k = THE EXPECTED RETURN ON A GIVEN SECURITY

r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)

β = THE BETA COEFFICIENT OF A GIVEN SECURITY

r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 04/14/2006 THROUGH 05/19/2006 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2006 YEARBOOK.

FAR WEST WATER AND SEWER COMPANY
TEST YEAR ENDED DECEMBER 31, 2004
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. WS-03478A-05-0801
SURREBUTTAL SCHEDULE WAR -

LINE NO.		AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	\$ 268.4	50.4%	\$ 274.1	48.0%	\$ 117.6	44.7%	\$ 878.4	52.0%	\$ 384.6	50.3%
2											
3	PREFERRED STOCK	0.0	0.0%	3.5	0.6%	0.5	0.2%	0.0	0.0%	1.0	0.1%
4											
5	COMMON EQUITY	264.1	49.6%	293.9	51.4%	144.8	55.1%	811.9	48.0%	378.7	49.5%
6											
7	TOTALS	\$ 532.5	100%	\$ 571.5	100%	\$ 262.9	100%	\$ 1,690.3	100%	\$ 764.3	100%

REFERENCE:
MOST RECENT SEC 10-K FILINGS

DOCKET NO. WS-03478A-05-0801
SURREBUTTAL SCHEDULE WAR - 9

REFERENCE:
COSTS OF DEBT: SURREBUTTAL TESTIMONY SCHEDULE WAR-1, PAGE 2
COSTS OF PREFERRED STOCK: MOST RECENT SEC 10-K FILINGS
COSTS OF COMMON EQUITY: SURREBUTTAL TESTIMONY SCHEDULE WAR-2
CAPITAL RATIO: SURREBUTTAL TESTIMONY SCHEDULE WAR-8
WEIGHTED COST: CAPITAL RATIO x COST

EXHIBIT 1

The Water Utility Industry continues to rank near the bottom of the *Value Line* investment universe for Timeliness, based on our momentum-driven ranking system. The stocks here struggled with abnormally wet weather in recent months.

However, we think that they will probably rebound somewhat this year. Assuming more normal weather conditions, we expect that the industry, as a whole, will continue to reap the benefits of a more cooperative regulatory commission, particularly in California.

Nevertheless, these stocks still lack long-term appreciation potential. Although recent changes in the makeup of regulatory bodies and improved weather conditions paint a more favorable backdrop, we still have some concerns about escalating infrastructure costs and the effects on the industry's earnings potential out to late decade. None of the stock's covered in the next few pages currently stand out for gains appeal. Meanwhile, we are concerned that the capital constraints that we anticipate will diminish the income appeal of many of these issues.

Improved Regulatory Environment

Water utility companies have been hurt by unfavorable and delayed rate relief case rulings in recent years. Indeed, rulings by regulatory authorities, which were put in place to keep a balance of power between consumers and providers, have long been one-sided, with utilities typically coming out on the short end of the stick. However, it finally looks as though things are changing, particularly for those companies with operations in California. Governor Schwarzenegger has made numerous changes to the California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, most notably its board members. Constituents now appear to be more business-friendly, judging from a host of more-favorable case rulings in recent months. This is a major boon for businesses based in California such as *American States Water Co.* and *California Water Service Group*.

Escalating Expenses

Despite the aforementioned changes, regulatory laws on pipeline and well infrastructure continue to grow more stringent. Current infrastructures are typically in

INDUSTRY TIMELINESS: 93 (of 98)

excess of 100 years old and need maintenance and, in some cases, significant renovations or rebuilding. Meanwhile, geopolitical concerns are making matters worse, due to the threat of bioterrorism on U.S. water pipelines and reservoirs. As a result, these costs are only likely to increase going forward. In all, infrastructure repair costs are expected to climb to the hundreds of millions of dollars over the next two decades. This is particularly bad for smaller water companies, as they lack the capital to take these initiatives. Instead, many are being forced to sell, resulting in massive consolidation within the industry. That said, many of the larger, more flexible companies with the money to meet the higher costs have been using the weakness to improve their operations and increase their customer base. *Aqua America*, the largest water utility in our Survey, is a prime example, closing the doors on over 100 acquisitions in the past five years. In doing so, it has doubled its revenue base. The company does not appear to be slowing down, either. Its buying ways give it the best 3- to 5-year appreciation potential of the all the stocks in this industry.

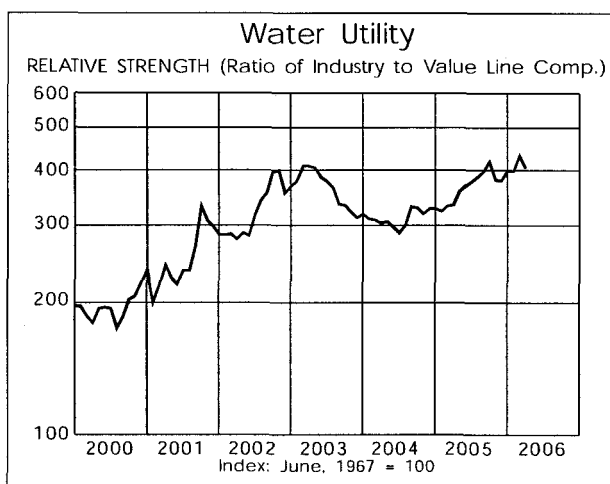
Investment Advice

Most investors will probably want to steer clear of the stocks in this industry. None of them are ranked higher than 3 (Average) for Timeliness for the coming six to 12 months, and not one holds better-than-modest 3- to 5-year appreciation potential. As a result, we think that growth-oriented investors will want to look elsewhere. Meanwhile, the income appeal of many of these stocks has been diminished in recent months, as well. Although water utility stocks have long generated a steady stream of income, recent price appreciation, coupled with a rising interest-rate environment, has increased the income-producing appeal of alternative investments. That said, we think that more-conservative investors may find *California Water* appealing. The stock is ranked 2 (Above Average) for Safety and has historically offered a steady stream of income. As always, we recommend that potential investors take a careful look at the individual reports on the following pages before making any financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry							
2002	2003	2004	2005	2006	2007		09-11
925.2	1030.0	1173.6	1250	1350	1450	Revenues (\$mill)	1925
107.8	112.6	105.7	155	170	190	Net Profit (\$mill)	260
38.6%	39.7%	39.1%	39.0%	39.0%	39.0%	Income Tax Rate	39.0%
--	--	--	Nil	Nil	Nil	AFUDC % to Net Profit	Nil
54.1%	51.0%	49.1%	52.0%	51.0%	50.0%	Long-Term Debt Ratio	50.0%
45.7%	48.8%	50.7%	48.0%	49.0%	50.0%	Common Equity Ratio	50.0%
2116.4	2449.1	2785.6	3000	3300	3575	Total Capital (\$mill)	4600
2955.1	3405.6	3836.9	4125	4125	4875	Net Plant (\$mill)	6100
6.9%	5.9%	6.0%	7.0%	7.5%	8.0%	Return on Total Cap'l	8.5%
11.1%	8.8%	9.0%	11.0%	10.0%	10.5%	Return on Shr. Equity	11.5%
11.1%	8.8%	9.0%	11.0%	10.0%	10.5%	Return on Com Equity	11.5%
4.0%	2.7%	3.1%	5.0%	5.0%	5.5%	Retained to Com Eq	5.0%
64%	70%	66%	60%	55%	55%	All Div'ds to Net Prof	55%
21.6	25.6	25.4				Avg Ann'l P/E Ratio	18.0
1.18	1.46	1.34				Relative P/E Ratio	1.20
3.0%	2.7%	2.6%				Avg Ann'l Div'd Yield	2.5%

Bold figures are
Value Line
estimates



RECENT PRICE	39.70	P/E RATIO	27.2 (Trailing: 33.1 Median: 16.0)	RELATIVE P/E RATIO	1.42	DIV'D YLD	2.3%	VALUE LINE
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TIMELINESS	3	Raised 3/24/06
SAFETY	3	New 2/4/00
TECHNICAL	3	Lowered 11/18/05
BETA 70 (1.00 = Market)		

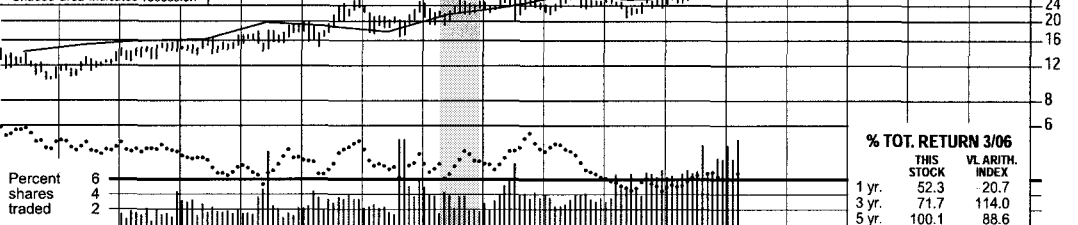
High:	14.0	16.1
Low:	10.5	12.5

LEGENDS
 — 1.25 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 2-for-1 split 10/93
 3-for-2 split 6/02
 Options: No
 Shaded area indicates recession

	Price	Gain	Ann'l Totl Return
High	40	(Nil)	3%
Low	30	(-25%)	-4%

Insider Decisions									
	J	J	A	S	O	N	D	J	
to Buy	0	0	0	0	0	0	0	0	
Options	0	0	0	0	0	0	0	0	
to Sell	0	0	1	0	0	0	0	0	

	2Q2005	3Q2005	4Q2005
to Buy	42	54	4
to Sell	41	33	4
Hld's(000)	6199	6302	627



1990	1991	1992	1993
9.58	9.15	10.10	9.21
1.49	1.78	1.81	1.61
.94	1.19	1.15	1.11
.72	.73	.77	.7
2.53	2.77	2.31	1.9
7.54	8.39	8.85	9.9
9.43	9.91	9.96	11.7
10.2	8.8	10.6	13.
.76	.56	.64	.7
7.5%	7.0%	6.3%	5.3%

1994	1995	1996	1997
10.43	11.03	11.37	11.50
1.68	1.75	1.75	1.75
.95	1.03	1.13	1.13
.80	.81	.82	.82
2.43	2.19	2.40	2.40
10.07	10.29	11.01	11.01
11.77	11.77	13.33	13.33
12.8	11.6	12.6	12.6
.84	.78	.79	.79
6.6%	6.7%	5.8%	5.8%

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
4	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	14.85	15.35	Revenues per sh	17.50
5	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.22	2.85	2.90	"Cash Flow" per sh	3.45
4	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.33	1.45	1.55	Earnings per sh ^A	1.80
3	.84	.85	.86	.87	.87	.88	.89	.90	.91	.91	Div'd Decl'd per sh ^B	.96
8	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	4.00	4.10	Cap'l Spending per sh	4.50
4	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	17.15	17.80	Book Value per sh	20.00
4	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.50	18.25	Common Shs Outst'g ^C	20.50
5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.7	<i>Bold figures are Value Line estimates.</i>		Avg Ann'l P/E Ratio	19.5
4	.81	.97	1.03	.86	1.00	1.82	1.23	1.14			Relative P/E Ratio	1.25
6	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%			Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 12/31/00
Total Debt \$296.0 mill. **Due in 5 Yrs** \$100.0 mill.
LT Debt \$268.4 mill. **LT Inter** \$100.0 mill.
 (Total interest coverage: 2.2x)

1/05	151.5	15
rs \$3.2 mill.	13.5	
t \$18.0 mill.	43.3%	41

8	148.1	173.4	184.0	197.5	209.2	212.7	228.0	236.2	260	280	Revenues (\$mill)	350
1	14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5	26.0	29.0	Net Profit (\$mill)	37.0
%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	45.1%	43.0%	42.0%	Income Tax Rate	42.0%
									Nil	Nil	AFIDC % to Net Profit	Nil

Leases, Uncapitalized: None
Pension Assets-12/05 \$56.6 mil
Oblig. \$83.2 mil.
Pfd Stock None. **Pfd Div:**

	41.9%	43
	57.3%	56
None.	256.0	28
	357.8	38

%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	50.5%	51.0%	Long-Term Debt Ratio	52.0%
%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	49.5%	49.0%	Common Equity Ratio	48.0%
\$	277.1	328.2	371.1	447.6	444.4	442.8	480.4	532.5	600	665	Total Capital (\$mill)	850
\$	414.8	442.6	500.1	530.8	563.3	602.3	664.2	713.2	785	835	Net Plant (\$mill)	1000

Common Stock 16,797,952 shs.

6.9%	6
9.0%	9

%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.8%	6.0%	Return on Total Cap'l	6.0%
%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.5%	Return on Shr. Equity	9.0%

MARKET CAP: \$675 million (S&P 500)

Cap)	9.0%	9
------	------	---

9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.5%	9.0%	Return on Com Equity	9.0%
------	-------	------	-------	------	------	------	------	------	------	----------------------	------

CURRENT POSITION	2003
(\$MILL.)	
Cash Assets	12.8

2004 12/31/05	2.4%	1
1.3 13.6	73%	8

%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	3.5%	4.0%	Retained to Com Eq	4.5%
%	78%	72%	68%	65%	65%	113%	84%	67%	62%	57%	All Div'ds to Net Prof	52%

Cash Assets	12.8
Receivables	11.8
Inventory (Avg Cst)	1.4
Other	32.4
Current Assets	58.4
Accts Payable	18.8
Debt Due	56.8
Other	20.3

4.3	13.0	BUSINESS company. Company, i ice areas in Orange Co ices to ap
14.3	13.3	
1.5	1.4	
32.9	41.2	
53.0	68.9	
18.2	19.7	
45.9	27.6	
22.2	30.3	

American States Water Co. operates as a holding company through its principal subsidiary, Golden State Water Company, which supplies water to 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and San Bernardino. The company also provides electric utility service to approximately 23,000 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00); 11,400 customers. Has roughly 515 employees. Off. & dir. own 3.1% of common stock (4/06 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wixey. Incorporated: CA. Add: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Web: www.aswater.com.

Current Liab.	95.90
Fix. Chg. Cov.	237%
ANNUAL RATES	Past
of change (per sh)	10 Yrs.
Revenues	3.5%
"Cash Flow"	3.0%
Earnings	-
Dividends	1.0%
Book Value	4.0%

86.3	77.6
46%	325%
Est'd '03-'05	
to '09-'11	
3.5%	
6.0%	
8.0%	
1.0%	
5.0%	

In States Water ought to post earnings growth this year . . . Alve think that better weather control will play a big role, the real growth should continue to be an improving environment. Indeed, the California Public Utilities Commission introducing a 2007 share-net estimate of \$1.55, representing 7% growth. **Nevertheless, we look for bottom-line growth to become negligible in 2008.** Despite a better regulatory environment, AWR must continue to contend with ballooning infrastructure costs. It will likely

Calendar	QUARTERLY REVENUES		
	Mar.31	Jun. 30	Sep. 30
2003	46.7	51.8	63.7
2004	46.7	59.3	69.0
2005	49.8	60.5	68.1
2006	55.0	67.0	76.0
2007	60.0	72.0	81.0

mill.) Dec. 31	Full Year
50.5	212.7
53.0	228.0
57.8	236.2
62.0	260
67.0	280

which is in charge of supervising utilities, has undergone a significant in recent months. What many to be antagonists of utilities was with more business-friendly. The changes paint a favorable for AWR going forward and be forced to tap equity and debt markets to make the changes, due to its strapped cash position. We remain concerned that such financing activity will dilute earnings and could potentially even keep AWR from making acquisitions.

Calendar	EARNINGS PER SHARE		
	Mar.31	Jun. 30	Sep. 30
2003	.20	.19	.51
2004	.08	.30	.52
2005	.22	.34	.47
2006	.24	.37	.55
2007	.27	.39	.57

A	Full
Dec. 31	Year
d.12	.78
.15	1.05
.30	1.33
.29	1.45
.32	1.55

help it post earnings of \$1.45 per share. The CPUC recently approved rate increases for Region II and Region I service areas of AWR's GSWC effective January 1, 2006. The rate increase would add more than \$5.6 million in annual revenues.

Calendar	QUARTERLY DIVIDENDS		
	Mar.31	Jun.30	Sep.30
2002	.217	.217	.217
2003	.221	.221	.221
2004	.221	.221	.221
2005	.225	.225	.225
2006	.225		

Dec. 31	Full Year
.221	.87
.221	.88
.225	.89
.225	.90

next. Meanwhile, AWR has filed a general rate case for Region II, resulting in a \$14.9 million increase in revenue on a 11.2% ROE, effective January 1, 2007. Although a favorable decision was given, we think that the recent rate increase will be well for AWR. Thus, we are

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢. Quarterly earnings may not sum due to change in share count. Next earnings report due early

(B) Dividends historically paid in early March, June, September, December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for splits.

Company's Financial Strength	B+
Stock's Price Stability	80
Price Growth Persistence	80
Earnings Predictability	60

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CALIFORNIA WATER

NYSE-CWT

RECENT PRICE **44.60**

P/E RATIO **26.4** (Trailing: 30.3; Median: 19.0)

RELATIVE P/E RATIO **1.38**

DIV'D YLD **2.6%**

VALUE LINE

TIMELINESS 4 Raised 11/4/05
SAFETY 2 Lowered 8/11/95
TECHNICAL 3 Raised 4/14/06
BETA .75 (1.00 = Market)

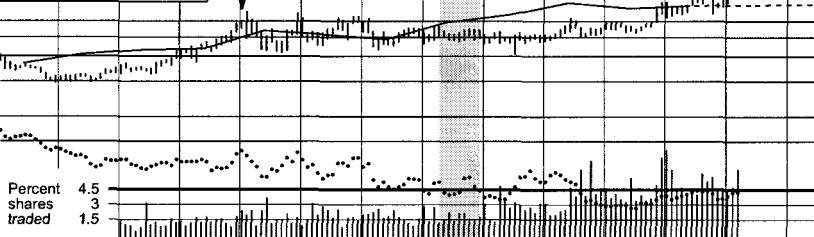
2009-11 PROJECTIONS

Price Gain Ann'l Total
High 40 (-10%)
Low 30 (-35%)
Return Nil
-6%

Insider Decisions
J J A S O N D J F
to Buy 0 0 1 0 0 0 0 0 0
Options 0 0 5 2 0 0 0 0 1
to Sell 1 0 5 2 0 0 0 0 2

Institutional Decisions
2Q2005 3Q2005 4Q2005
to Buy 48 38 39
to Sell 24 39 32
Hld's(000) 4744 4897 4959

LEGENDS
1.33 x Dividends p sh
divided by Interest Rate
Relative Price Strength
2-for-1 split 1/98
Options: No
Shaded area indicates recession



% TOT. RETURN 3/06
THIS STOCK VL ARITH. INDEX
1 yr. 39.1 20.7
3 yr. 95.1 114.0
5 yr. 92.1 88.6

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
10.93	11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	17.30	18.70	Revenues per sh	21.60
1.97	1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.04	3.00	3.40	"Cash Flow" per sh	3.60
1.25	1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.70	1.75	Earnings per sh A	1.80
.87	.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	Div'd Decl'd per sh B	1.22
2.36	3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	5.14	5.00	4.50	Cap'l Spending per sh	4.00
10.04	10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.98	16.70	17.50	Book Value per sh C	20.45
11.38	11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	19.00	19.50		Common Shs Outst'g D	22.00
10.4	11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9			Avg Ann'l P/E Ratio	19.0
.77	.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.30			Relative P/E Ratio	1.25
6.7%	6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%			Avg Ann'l Div'd Yield	3.5%

CAPITAL STRUCTURE as of 12/31/05
Total Debt \$275.2 mill. Due in 5 Yrs \$5.3 mill.
LT Debt \$274.1 mill. LT Interest \$19.0 mill.

(LT interest earned: 2.4x; total int. cov.: 2.4x)
Pension Assets-12/05 \$70.2 mill.
Oblig. \$103.2 mill.
Pfd Stock \$3.5 mill. **Pfd Div'd** \$15 mill.
139,000 shares, 4.4% cumulative (\$25 par).

Common Stock 18,405,386 shs.
as of 3/6/06
MARKET CAP: \$750 million (Small Cap)

CURRENT POSITION	2003	2004	12/31/05
Cash Assets	2.9	18.8	9.5
Other	40.6	51.6	42.7
Current Assets	43.5	70.4	52.2
Accts Payable	23.8	19.8	36.1
Debt Due	7.3	-	1.1
Other	32.5	36.4	39.6
Current Liab.	63.6	57.2	76.8
Fix. Chg. Cov.	218%	309%	361%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05
of change (per sh)			
Revenues	3.0%	2.0%	3.5%
"Cash Flow"	2.5%	-0.5%	4.5%
Earnings	0.5%	-4.0%	4.5%
Dividends	1.5%	1.0%	1.0%
Book Value	2.5%	1.5%	5.0%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	51.3	68.0	88.2	69.6	277.1
2004	60.2	88.9	97.1	69.4	315.6
2005	60.3	81.5	101.1	77.8	320.7
2006	65.0	95.0	105	80.0	345
2007	70.0	100	110	85.0	365

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	d.05	.30	.53	.41	1.21
2004	.08	.59	.59	.20	1.46
2005	.03	.41	.71	.32	1.47
2006	.10	.55	.72	.33	1.70
2007	.11	.57	.73	.34	1.75

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.28	.28	.28	.28	1.12
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005	.285	.285	.285	.285	1.14
2006	.2875				

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (456,700 customers) in 75 communities in California, Washington, and New Mexico. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp.

California Water Service Group should bounce back handsomely this year. Extremely wet weather stymied earnings growth in 2005. However, we expect more-normalized conditions going forward. Moreover, the company should continue to benefit from recent changes at the California Public Utilities Commission (CPUC). Indeed, the CPUC, which is in charge of overseeing local utilities, has undergone sweeping personnel changes in recent months. The new constituents appear to be more business-friendly than the previous board members, handing down more timely and favorable rate case decisions of late. The company has a number of rate case filings still pending. Its general rate case for eight districts, representing roughly a quarter of its customer base is the most prominent. The case, which was filed in August, is requesting \$11 million in 2006 and \$6 million in 2007. The recent developments paint a favorable picture for CWT. In all, we expect CWT to post profits of \$1.70 a share this year. **We expect earnings growth to slow considerably in 2007, though.** The costs of maintaining well and pipeline infra-

structures continue to increase at a rapid pace and will likely remain high for the foreseeable future, given the growing demands of the EPA on drinking water purification standards. However, CWT does not currently have the means to meet these expenses and will ultimately have to look to equity and debt markets in order to do so. As a result, we look for bottom-line growth to moderate to 3% next year and flatten out after that.

CWT shares will probably not appeal to most. The stock is ranked 4 (Below Average) for Timeliness and does not stand out for 3- to 5- year appreciation potential either, based on the capital constraints that we envision out to 2009-2011. Meanwhile, its dividend yield is not as appealing as it once was given the stock's recent price appreciation and the alternative income vehicles that are currently on the market.

That said, this issue may pique the interest of more-conservative investors looking to add a steady stream of income to their portfolios. CWT is ranked 2 (Above Average) for Safety.

Andre J. Costanza

April 28, 2006

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due late July.

(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.

(C) Incl. deferred charges. In '05: \$63.9 mill., \$3.47/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	65

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RECENT PRICE	16.00	P/E RATIO	40.0 (Trailing: 47.1 Median: 19.0)	RELATIVE P/E RATIO	2.08	DIV'D YLD	1.3%	VALUE LINE
--------------	-------	-----------	---------------------------------------	--------------------	------	-----------	------	------------

[illegible]

2009-11 PROJECTIONS			
	Price	Gain (+55%) (Nil)	Ann'l Total Return 2%
High	25		
Low	16		

Options: No
Shaded area indicates recession

Annotations on chart: 3-for-2, 5-for-4, 4-for-3

Insider Decisions											
	J	J	A	S	O	N	D	J	F		
to Buy	0	0	0	0	0	0	0	0	0	0	0
Options	0	0	3	1	1	1	0	0	0	0	0
to Sell	0	0	1	2	1	1	1	1	1	1	1

Institutional Decisions				Percent shares traded		% TOT. RETURN 3/06	
	2Q2005	3Q2005	4Q2005			THIS STOCK	VL ARITH. INDEX
to Buy	28	39	31	15		1 yr. 55.1	20.7
to Sell	16	15	39	10		3 yr. 85.6	114.0
Hold/none	5044	5706	6326	5		5 yr. 125.2	88.6

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
3.58	3.34	3.77	4.03	4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	9.35	10.00	Revenues per sh	13.35
.46	.28	.44	.38	.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.78	.85	1.00	"Cash Flow" per sh	1.45
.22	.02	.19	.08	.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	.42	.51	Earnings per sh ^A	.95
.18	.18	.18	.14	.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	.22	.24	Div'd Decl'd per sh ^B	.29
.50	.39	.42	.60	.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	1.50	1.50	Cap'l Spending per sh	1.90
2.57	2.41	2.42	2.31	2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	6.70	6.95	Book Value per sh ^D	8.75
11.48	11.60	11.80	11.97	12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	23.00	23.00	Common Shs Outst'g ^C	24.00
14.2	NMF	14.5	35.8	22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.8	24.8	21.2	NMF	35.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	21.0
1.05	NMF	.88	2.11	1.46	.98	1.03	.97	.89	1.12	1.11	1.01	1.35	1.21	NMF	1.90			Relative P/E Ratio	1.40
5.7%	5.5%	6.6%	4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%			Avg Ann'l Div'd Yield	1.5%

CAPITAL STRUCTURE as of 12/31/05	66.2	71.0	72.2	80.9	104.7	115.5	130.8	173.0	188.0	203.2	215	230	Revenues (\$mill)	320
Total Debt \$127.1 mill. Due in 5 Yrs \$45.0 mill.	1.9	2.6	3.4	4.2	5.4	6.2	6.0	7.2	4.5	7.3	9.0	11.0	Net Profit (\$mill)	20.0
LT Debt \$117.6 mill. LT Interest \$7.0 mill.	41.8%	41.6%	39.5%	39.0%	37.0%	36.0%	34.9%	35.9%	36.1%	36.0%	36.0%	36.0%	Income Tax Rate	36.0%
(Total interest coverage: 2.4x) (45% of Cap'l)						14.4%	3.2%		11.0%	9.5%	10.0%	10.0%	AFUDC % to Net Profit	8.5%

Leases, Uncapitalized: Annual rentals \$6.7 mill.		50.2%	47.9%	48.7%	45.2%	48.8%	51.4%	56.7%	47.9%	47.9%	44.7%	44.5%	47.5%	Long-Term Debt Ratio	44.0%
Pension Liability None		48.9%	51.3%	50.5%	54.1%	50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	55.5%	52.5%	Common Equity Ratio	56.0%
Pfd Stock \$461,000	Pfd Div'd \$24,000	61.1	62.2	68.5	73.9	95.0	113.0	142.8	152.8	242.0	262.9	280	305	Total Capital (\$mill)	375
		10.4	10.3	10.3	12.7	15.8	17.4	22.0	24.0	28.6	34.8	38.5	45.5	Net Capital (\$mill)	305

	91.4	102.1	109.2	113.7	117.1	203.9	219.5	302.8	344.8	395	455	Net Plant (\$mill)	695	
Common Stock 22,325,961 shs. as of 3/8/06	5.5%	6.8%	7.1%	7.6%	7.6%	7.6%	8.6%	6.2%	3.1%	4.1%	4.5%	5.0%	Return on Total Cap'l	6.5%
MARKET CAP: \$350 million (Small Cap)	6.3%	8.0%	9.5%	10.3%	11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	6.0%	7.0%	Return on Shr. Equity	9.5%
	6.3%	8.1%	9.6%	10.4%	11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	6.0%	7.0%	Return on Com Equity	9.5%
	0.0%	4.7%	0.0%	3.0%	7.1%	7.2%	0.0%	5.0%	0.0%	0.0%	0.0%	0.0%		

CURRENT POSITION (\$MILL.)	2003	2004	12/31/05	2.9%	4.5%	6.0%	7.0%	7.8%	7.8%	6.3%	5.8%	8%	2.1%	2.5%	3.0%	Retained to Com Eq	6.0%
Cash Assets	5.4	1.9	3.0	55%	45%	38%	33%	31%	32%	36%	36%	78%	58%	56%	55%	All Div'ds to Net Prof	35%

Receivables	19.8	23.9	26.5	BUSINESS: Southwest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; utility infrastructure construction management; and public works services. It operates out of two groups, Utility (39% of 2005 revenues) and Services (61%). Utility owns and manages rate-regulated public water utilities in California, New Mexico, Oklahoma, and Texas. Services does mostly maintenance work on a contract basis. Off. & dir. own 8.2% of com. shs.; T. Rowe Price, 5.8% (4/06 proxy). Chrmn & CEO: Anton C. Gamier. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Avenue. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.southwestwater.com .
Inventory (Avg Cst)	--	1.9	--	
Other	10.2	17.6	18.2	
Current Assets	35.4	45.3	47.7	
Accts Payable	11.4	12.3	10.0	
Debt Due	2.7	3.4	9.5	
Other	17.3	20.0	21.1	

Current Liab.	31.4	35.7	40.6
ANNUAL RATES	Past	Past	Est'd '03-'05
of change (per sh)	10 Yrs.	5 Yrs.	to '09-'11
Revenues	8.5%	8.5%	5.5%
"Cash Flow"	7.0%	3.5%	10.5%
Earnings	13.5%	1.5%	18.0%
Dividends	6.0%	10.0%	8.0%
Book Value	9.5%	14.0%	7.0%

Calendar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	
2003	36.1	41.5	51.4	44.0	173.0
2004	39.8	45.7	55.0	47.5	188.0
2005	45.2	51.3	54.7	52.0	203.2
2006	50.0	55.0	60.0	50.0	215
2007	54.0	60.0	63.0	53.0	230

Calendar	EARNINGS PER SHARE ^A					Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31		
2003	d.01	.13	.21	.11		.44
2004	--	.13	.12	d.02		.23
2005	d.01	.15	.14	.06		.34
2006	.02	.16	.16	.08		.42
2007	.04	.18	.19	.10		.51

Calendar	QUARTERLY DIVIDENDS PAID ^B					Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	2006	
2002	.038	.038	.038	.038	.15	
2003	.042	.042	.042	.046	.17	
2004	.046	.046	.046	.050	.19	
2005	.048	.048	.048	.052	.20	
2006	.052	.052				

These nominees bring with them a more utilities-friendly approach towards regulatory matters than their predecessors. As a result, we expect Southwest will have an easier time winning new rate cases in the region. The first of such rate decisions, under the new CPUC, has already been filed. The company is seeking an 11% return on

agency, and hence allows for some rate flexibility in the future. **These untimely shares have limited long-term appeal.** Current valuations seem high, causing our projections to indicate an uninspiring total return over the coming 3 to 5 years.

Praneeth Satish *April 28, 2006*

Southwest Water Company is getting improvements from both of its operating segments. The Utility Group has been benefiting from favorable weather and customer growth in New Mexico and Texas. Moreover, the Services Group rebounded, swinging from a slight loss in 2004 to a \$3.6 million profit in 2005. Consequently, we look for healthy 24% and 21% share-net gains in 2006 and 2007.

The Utility Group will likely generate 40% of Southwest's revenues and about two-thirds of its earnings in 2006. Changes on the regulatory front in California and a recent acquisition should fuel profit growth here in the years to come. California Governor Schwarzenegger nominated two candidates to fill vacant spots on the California Public Utilities Commission (CPUC) early last year. These nominees bring with them a more utilities-friendly approach towards regulatory matters than their predecessors. As a result, we expect Southwest will have an easier time winning new rate cases in the region. The first of such rate decisions, under the new CPUC, has already been filed. The company is seeking an 11% return on

public water utilities in California, New Mexico, Oklahoma, and Texas. Services does mostly maintenance work on a contract basis. Off. & dir. own 8.2% of com. shs.; T. Rowe Price, 5.8% (4/06 proxy). Chrmn & CEO: Anton C. Garnier. Inc. DE. Addr.: One Wilshire Building, 624 S. Gramd Avenue. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.southwestwater.com.

equity, as compared to its current allowed return on equity of 9.8%. The outcome of this decision will power earnings in 2006 and beyond. Meanwhile, the purchase of Monarch Utilities in mid-2004 is helping to increase customer growth in New Mexico and Texas. Continued top-line expansion should come from recently filed rate increases in Texas that will likely take effect within the next few months.

The Services Group is benefiting from a recent acquisition. Services rise to the black can be attributed to new contracts, increased project work, and the acquisition of an Alabama wastewater system. Margins in the Services Group have been, and will likely remain, thin in the coming years, but the wastewater addition will probably help improve the situation. The Alabama system isn't regulated by a state agency, and hence allows for some rate flexibility in the future.

These untimely shares have limited long-term appeal. Current valuations seem high, causing our projections to indicate an uninspiring total return over the coming 3 to 5 years.

Praneeth Satish April 28, 2006

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (\$6); '01, (\$6); '02, '03, '05, (23¢). Next earnings report due early May.	April, July, and October.
(B) Dividends historically paid in late January,	(C) In millions, adjusted for splits.
	(D) Includes intangibles. In 2005: \$35.9 million,

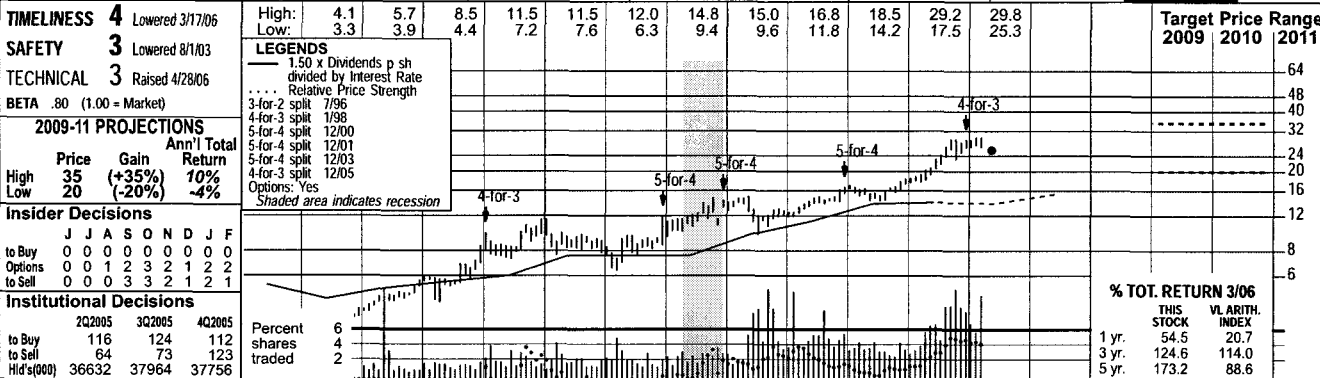
\$1.61/share.

Company's Financial Strength	B
Stock's Price Stability	80
Price Growth Persistence	90
Earnings Predictability	60

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AQUA AMERICA NYSE-WTR

RECENT PRICE **25.63** P/E RATIO **34.6** (Trailing: 36.1) (Median: 23.1) RELATIVE P/E RATIO **1.80** DIVD YLD **1.7%** VALUE LINE



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
2.02	2.14	1.82	1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.05	4.40	Revenues per sh	5.80
.43	.45	.39	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.30	1.45	"Cash Flow" per sh	1.85
.24	.25	.24	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.77	.86	Earnings per sh ^A	1.20
.19	.19	.20	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.49	Div'd Decl'd per sh ^B	.66
.76	.54	.60	.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	1.90	2.15	Cap'l Spending per sh	2.60
2.10	2.07	2.09	2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.75	7.20	Book Value per sh	9.05
40.64	41.42	51.20	58.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	130.00	131.00	Common Shs Outst'g ^C	134.00
10.2	10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	23.0
.76	.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.70			Relative P/E Ratio	1.55
7.7%	7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%			Avg Ann'l Div'd Yield	2.4%
CAPITAL STRUCTURE as of 12/31/05						122.5	136.2	151.0	257.3	275.5	307.3	322.0	367.2	442.0	496.8	525	575	Revenues (\$mill)	775
Total Debt \$1041.5 mill. Due in 5 Yrs \$280.0 mill.						19.8	23.2	28.8	45.0	50.7	58.5	62.7	67.3	80.0	91.2	100	115	Net Profit (\$mill)	160
LT Debt \$878.4 mill. LT Interest \$50.0 mill.						41.4%	40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.0%	39.0%	Income Tax Rate	39.0%
(Total interest coverage: 3.8x) (48% of Cap'l)						--	--	--	--	--	--	--	--	2.9%	2.6%	2.5%	2.5%	AFUDC % to Net Profit	2.0%
Pension Assets \$117.7 mill.						54.1%	54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.0%	51.0%	Long-Term Debt Ratio	51.0%
Oblig. \$179.7 mill.						44.0%	44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	49.0%	49.0%	Common Equity Ratio	49.0%
Pfd Stock None						401.7	427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1785	1925	Total Capital (\$mill)	2475
Common Stock 129,205,090 shares as of 2/17/06						502.9	534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2450	2635	Net Plant (\$mill)	3280
						6.8%	7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	7.0%	7.5%	Return on Total Cap'l	8.0%
						10.7%	11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	11.5%	12.0%	Return on Shr. Equity	13.0%
MARKET CAP: \$3.3 billion (Mid Cap)						11.2%	12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	11.5%	12.0%	Return on Com Equity	13.0%
CURRENT POSITION						2.8%	3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	5.0%	5.5%	Retained to Com Eq	6.0%
(\$MILL.)						75%	70%	64%	65%	60%	59%	59%	59%	57%	56%	57%	56%	All Div'ds to Net Prof	55%
Cash Assets						39.2	13.1	11.9											
Receivables						62.3	64.5	62.7											
Inventory (AvgCst)						5.8	6.9	7.8											
Other						5.1	5.6	7.6											
Current Assets						112.4	90.1	90.0											
Accts Payable						32.3	23.5	55.5											
Debt Due						135.8	135.3	163.1											
Other						63.9	58.6	44.7											
Current Liab.						232.0	217.4	263.3											
Fix. Chg. Cov.						344%	364%	377%											

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '05: residential, 59%; commercial, 15%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America's stock is trading near its all-time high valuation multiple. Shares of the company rose 50% in 2005, a rather unusual gain for a utilities stock, especially water utility. These stocks are historically known for their slow yet steady performance, but they have been real high flyers over the past year. Aqua is poised for healthy share-net advances this year and next, but its current stock quotation may already include these advances. We outline the company's growth prospects below to see if WTR's current valuation is sustainable.

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	80.5	83.4	102.1	101.2	367.2
2004	99.8	106.5	120.3	115.4	442.0
2005	114.0	123.1	136.8	122.9	496.8
2006	120	130	140	135	525
2007	130	140	155	150	575

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.11	.14	.18	.14	.57
2004	.13	.14	.20	.17	.61
2005	.15	.17	.22	.17	.71
2006	.15	.17	.25	.20	.77
2007	.17	.19	.29	.21	.86

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.08	.08	.08	.084	.32
2003	.084	.084	.084	.09	.34
2004	.09	.09	.09	.098	.37
2005	.098	.098	.098	.108	.40
2006	.108				

Earnings growth in 2006 will probably be back-end loaded. Aqua has a large volume of rate cases that have recently been filed, and several more are coming. In total, the company is awaiting judgment on over \$65 million of rate hikes. The figure consists of rate filings in Pennsylvania (\$38.8 million), Indiana (\$5.5 million), New Jersey (\$4.1 million), Florida (\$4.0 million), and several other states. The majority of these rate increases will likely come in the second half of 2006, so we estimate flat share-earnings comparisons during the first half of the year.

A ravenous appetite for acquisitions should fuel profit growth in the coming years. Aqua is the largest investor-owned water utility in the United States. Using its good financial position, the company is able to purchase numerous smaller businesses in the fragmented water services industry. Management recently indicated that Aqua's acquisition pipeline is robust, and it is seeing a greater number of municipalities being offered for sale. Municipalities are good acquisition targets since they are often run less efficiently than most of Aqua's other operations. This means, although cash outflows will probably be high during the early years, as the company brings the new water systems up to par, future synergistic savings should make up for the initial losses.

We do not recommend these untimely shares to investors, given their current quotation. Projected earnings growth for the coming 3- to 5-years does not seem high enough to warrant the stock's lofty valuation. Moreover, the equity's current yield is out of line with historical norms.

Praneeth Satish April 28, 2006

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early May. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	100

To subscribe call 1-800-833-0046.

EXHIBIT 2



Zacks.com Quotes and Research

AMERICAN STS WTR CO AWR (NYSE)

Sponsored by: **Scottrade \$7 Trades**

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

AMER STATES WTR

630 East Foothill Boulevard

San Dimas, CA 91773

Phone: 909 394-3600

Fax: 909 394-0711

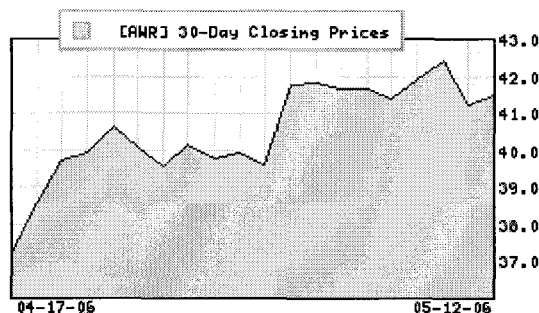
Web: www.aswater.comEmail: investorinfo@aswater.com

Industry UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End December
Last Reported Quarter 03/31/06
Next EPS Date 08/10/2006

Price and Volume Information

Zacks Rank 3
Yesterday's Close 41.48
52 Week High 42.39
52 Week Low 26.05
Beta 0.09
20 Day Moving Average 79,715
Target Price Consensus 38

**% Price Change**

4 Week 14.82
12 Week 31.12
YTD 37.63

% Price Change Relative to S&P 500

4 Week 11.80
12 Week 26.87
YTD 27.36

Share Information

Shares Outstanding (millions) 16.81
Market Capitalization (millions) 712.58
Short Ratio 9.97
Last Split Date 06/10/2002

Dividend Information

Dividend Yield 2.12%
Annual Dividend \$0.90
Payout Ratio 0.00
Change in Payout Ratio 0.00
Last Dividend Payout / Amount 02/08/2006 / \$0.22

EPS Information

Current Quarter EPS Consensus Estimate N/A
Current Year EPS Consensus Estimate 1.40
Estimated Long-Term EPS Growth Rate 6.00
Next EPS Report Date 08/10/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 3.00
30 Days Ago 3.00
60 Days Ago 3.00
90 Days Ago 3.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	30.28	vs. Previous Year	47.37%	vs. Previous Year	21.73%
Trailing 12 Months:	30.50	vs. Previous Quarter	-6.67%	vs. Previous Quarter:	4.80%
PEG Ratio	5.05				
Price Ratios		ROE		ROA	
Price/Book	2.69	03/31/06	-	03/31/06	-
Price/Cash Flow	14.64	12/31/05	8.47	12/31/05	2.59
Price / Sales	2.88	09/30/05	7.68	09/30/05	2.37
Current Ratio		Quick Ratio		Operating Margin	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	0.89	12/31/05	0.87	12/31/05	9.33
09/30/05	0.54	09/30/05	0.53	09/30/05	8.50
Net Margin		Pre-Tax Margin		Book Value	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	11.33	12/31/05	11.33	12/31/05	15.73
09/30/05	-	09/30/05	-	09/30/05	15.66
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	55.81	12/31/05	1.02	12/31/05	50.40
09/30/05	-	09/30/05	0.87	09/30/05	46.53



Zacks.com Quotes and Research

CALIFORNIA WTR SVC GROUP CWT (NYSE)Sponsored by: **Scottrade \$7 Trades**

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

General Information

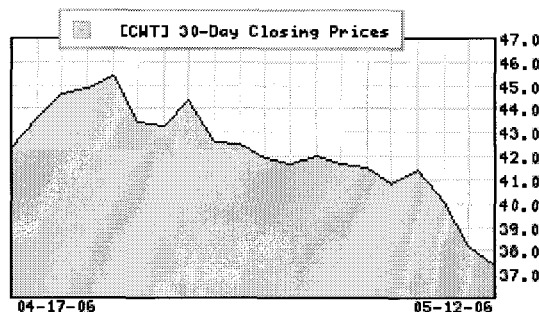
CALIF WATER SVC
 1720 North First Street
 San Jose, CA 95112
 Phone: 408 367-8200
 Fax: 408 437-9185
 Web: www.calwatergroup.com
 Email: klichtenbergl@calwater.com

Industry: UTIL-WATER
 Sector: SPLY
 Utilities

Fiscal Year End: December
 Last Reported Quarter: 03/31/06
 Next EPS Date: -

Price and Volume Information

Zacks Rank: 4
 Yesterday's Close: 37.32
 52 Week High: 45.36
 52 Week Low: 32.64
 Beta: 0.32
 20 Day Moving Average: 65,095
 Target Price Consensus: 42.67

**% Price Change**

4 Week: -5.36
 12 Week: -3.82
 YTD: 4.79

% Price Change Relative to S&P 500

4 Week: -7.85
 12 Week: -6.93
 YTD: 2.28

Share Information

Shares Outstanding (millions): 18.41
 Market Capitalization (millions): 737.30
 Short Ratio: 14.88
 Last Split Date: 01/26/1998

Dividend Information

Dividend Yield: 2.87%
 Annual Dividend: \$1.15
 Payout Ratio: 0.00
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 02/02/2006 / \$0.29

EPS Information

Current Quarter EPS Consensus Estimate: 0.58
 Current Year EPS Consensus Estimate: 1.66
 Estimated Long-Term EPS Growth Rate: 9.00

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.50
 30 Days Ago: 2.40
 60 Days Ago: 2.40

Next EPS Report Date - 90 Days Ago 2.40

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	24.17	vs. Previous Year	33.33%	vs. Previous Year	8.15%
Trailing 12 Months:	28.41	vs. Previous Quarter	-87.50%	vs. Previous Quarter:	-16.22%
PEG Ratio	2.69				
Price Ratios		ROE		ROA	
Price/Book	2.54	03/31/06	9.41	03/31/06	2.78
Price/Cash Flow	13.17	12/31/05	9.41	12/31/05	2.80
Price / Sales	2.26	09/30/05	8.74	09/30/05	2.62
Current Ratio		Quick Ratio		Operating Margin	
03/31/06	0.54	03/31/06	0.49	03/31/06	8.41
12/31/05	0.68	12/31/05	0.63	12/31/05	8.49
09/30/05	0.92	09/30/05	0.87	09/30/05	8.05
Net Margin		Pre-Tax Margin		Book Value	
03/31/06	8.27	03/31/06	8.27	03/31/06	15.74
12/31/05	8.49	12/31/05	8.49	12/31/05	15.98
09/30/05	13.43	09/30/05	13.43	09/30/05	15.99
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/06	54.27	03/31/06	0.94	03/31/06	48.28
12/31/05	56.99	12/31/05	1.90	12/31/05	65.53
09/30/05	12.55	09/30/05	0.93	09/30/05	47.99



Zacks.com Quotes and Research

SOUTHWEST WTR CO SWWC (NASDAQ)Sponsored by: **Scottrade \$7 Trades**

Southwest Water Company provides a broad range of utility and utility management services and serves people from coast to coast. Through its various subsidiaries, Southwest operates and manages water and wastewater treatment facilities along with providing utility submetering and billing and collection services.

General Information**SOUTHWEST WATER**

624 South Grand Avenue

Suite 2900

Los Angeles, CA 90017-3782

Phone: 213 929-1800

Fax: 213 929-1888

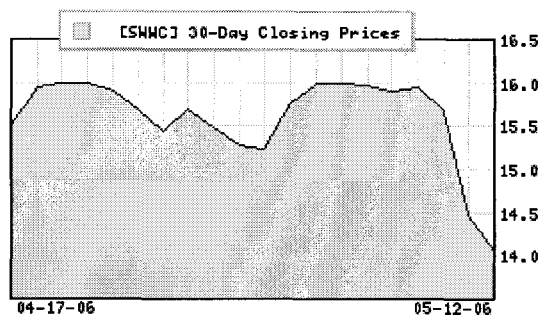
Web: www.southwestwater.comEmail: swwc@swwc.com

Industry UTIL-WATER
SPLY
Sector: Utilities

Fiscal Year End December
Last Reported Quarter 03/31/06
Next EPS Date 08/08/2006

Price and Volume Information

Zacks Rank 3
Yesterday's Close 14.06
52 Week High 19.03
52 Week Low 9.96
Beta 0.30
20 Day Moving Average 111,077
Target Price Consensus N/A

**% Price Change**

4 Week 1.42
12 Week 1.36
YTD 9.50

% Price Change Relative to S&P 500

4 Week -1.24
12 Week -1.92
YTD 5.08

Share Information

Shares Outstanding (millions) 22.33
Market Capitalization (millions) 349.85
Short Ratio 10.69
Last Split Date 12/27/2002

Dividend Information

Dividend Yield 1.34%
Annual Dividend \$0.21
Payout Ratio 0.00
Change in Payout Ratio 0.00
Last Dividend Payout / Amount 03/28/2006 / \$0.05

EPS Information

Current Quarter EPS Consensus Estimate 0.16
Current Year EPS Consensus Estimate 0.43
Estimated Long-Term EPS Growth Rate 5.50

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.20
30 Days Ago 2.00
60 Days Ago 2.00

Next EPS Report Date 08/08/2006 90 Days Ago 2.00

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	36.73	vs. Previous Year	414.99%	vs. Previous Year	8.40%
Trailing 12 Months:	41.71	vs. Previous Quarter	-50.00%	vs. Previous Quarter:	-2.30%
PEG Ratio	6.68				
Price Ratios		ROE		ROA	
Price/Book	2.33	03/31/06	-	03/31/06	-
Price/Cash Flow	19.31	12/31/05	5.46	12/31/05	1.69
Price / Sales	1.68	09/30/05	4.26	09/30/05	1.30
Current Ratio		Quick Ratio		Operating Margin	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	1.18	12/31/05	1.18	12/31/05	3.51
09/30/05	1.33	09/30/05	1.33	09/30/05	2.70
Net Margin		Pre-Tax Margin		Book Value	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	5.59	12/31/05	5.59	12/31/05	6.73
09/30/05	4.13	09/30/05	4.13	09/30/05	6.39
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	24.69	12/31/05	0.81	12/31/05	44.74
09/30/05	24.61	09/30/05	0.94	09/30/05	48.44



Zacks.com Quotes and Research

AQUA AMERICA INC WTR (NYSE)Sponsored by: **Scottrade \$7 Trades**

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

General Information**AQUA AMER INC**

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Bryn Mawr, PA 19010-3489

Phone: 610 527-8000

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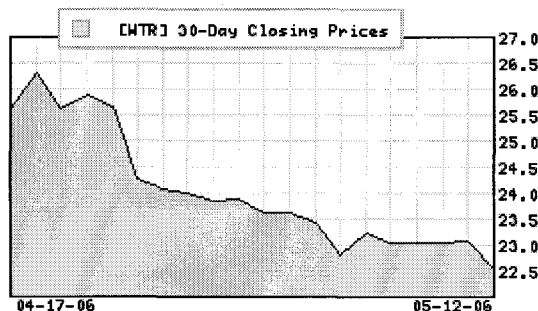
Web: www.aquaamerica.comEmail: investorrelations@aquaamerica.com

Industry: UTIL-WATER SPLY
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 03/31/06
Next EPS Date: 08/09/2006

Price and Volume Information

Zacks Rank: 4
Yesterday's Close: 22.54
52 Week High: 29.59
52 Week Low: 19.45
Beta: 0.13
20 Day Moving Average: 736,645
Target Price Consensus: N/A

**% Price Change**

4 Week: -10.74
12 Week: -16.92
YTD: -15.68

% Price Change Relative to S&P 500

4 Week: -13.08
12 Week: -19.62
YTD: -19.88

Share Information

Shares Outstanding (millions): 129.21
Market Capitalization (millions): 2,974.30
Short Ratio: 13.31
Last Split Date: 12/03/2001

Dividend Information

Dividend Yield: 1.86%
Annual Dividend: \$0.43
Payout Ratio: 0.62
Change in Payout Ratio: 0.02
Last Dividend Payout / Amount: 02/13/2006 / \$0.11

EPS Information

Current Quarter EPS Consensus Estimate: 0.16
Current Year EPS Consensus Estimate: 0.74
Estimated Long-Term EPS Growth Rate: 9.00
Next EPS Report Date: 08/09/2006

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.50
30 Days Ago: 2.43
60 Days Ago: 2.43
90 Days Ago: 2.43

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	31.02	vs. Previous Year	-13.33%	vs. Previous Year	3.47%
Trailing 12 Months:	33.36	vs. Previous Quarter	-23.53%	vs. Previous Quarter:	-4.03%
PEG Ratio	3.45				
Price Ratios		ROE		ROA	
Price/Book	3.61	03/31/06	11.27	03/31/06	3.50
Price/Cash Flow	18.91	12/31/05	11.67	12/31/05	3.66
Price / Sales	5.94	09/30/05	11.95	09/30/05	3.78
Current Ratio		Quick Ratio		Operating Margin	
03/31/06	-	03/31/06	-	03/31/06	17.74
12/31/05	0.34	12/31/05	0.31	12/31/05	18.35
09/30/05	0.39	09/30/05	0.36	09/30/05	18.70
Net Margin		Pre-Tax Margin		Book Value	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	29.81	12/31/05	29.81	12/31/05	6.31
09/30/05	30.80	09/30/05	30.80	09/30/05	6.09
Inventory Turnover		Debt-to-Equity		Debt to Capital	
03/31/06	-	03/31/06	-	03/31/06	-
12/31/05	0.00	12/31/05	1.08	12/31/05	52.01
09/30/05	0.00	09/30/05	1.10	09/30/05	52.32

ATTACHMENT A



Faces In The News

Money Manager Hails RWE Water Divestiture

Tatiana Serafin, 11.08.05, 2:24 PM ET

In "Liquid Stocks", Summit Global Management's **John Dickerson** discussed opportunities to invest in water companies that were helping build water systems in China and other developing nations. His pick, **RWE**, had investments in the U.K.'s Thames Water and American Water Works of the U.S. and provided investors with dividend yields above the market average and price/earnings ratio well below. On November 4, however, RWE announced it would divest its water assets and focus on electricity and gas markets in Europe.

"We are very happy that RWE is planning to get out of the water business," says Dickerson, "and we think in the longer run it will be a healthy development for investors in the U.S. water industry. The disposition of water utility assets in the U.S. is absolutely not an indication that this is a bad business that should be avoided by investors."

Dickerson says that American Water Works was the largest and most successful of all the U.S. water utilities before the RWE purchase (today he says that accolade is with **Aqua-America** (nyse: WTR - news - people) (See "Splash") and predicts that RWE will chose to publicly offer its utility assets because it can get better premiums in public markets. Dickerson does not believe either private equity investors or any other water utility companies would be interested in American Water Works because of the potential high price. He says only **General Electric** (nyse: GE - news - people) would be large enough to swallow American Water Works whole, but companies like GE, **ITT Industries** (nyse: ITT - news - people) and **3M** (nyse: MMM - news - people) have not shown previous interest in water utility assets, preferring to stick to water industrial assets—e.g. filtration, desalination and instrumentation markets.

That's good news for investors. Dickerson says an initial public offering for American Water Works would help bring down inflated multiples of smaller U.S. utilities which is the reason Dickerson moved most of his funds outside the U.S. Better valuations would mean more investment options.

For the moment, Dickerson also recommends sticking with RWE because there is not enough information about pending transactions. He says holding RWE might give existing investors preferential rights with respect to new water shares—a two-for-one bonus.

More Faces In The News

ATTACHMENT B

**Jon Markman**

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SuperModels

Invest in the coming global water shortage

Fresh water's getting scarce, and it has no substitutes. For investors in companies that can supply our increasingly thirsty planet, that spells opportunity.

By [Jon D. Markman](#)

Ten years ago next Monday, a massive earthquake rolled under the Japanese city of Kobe at dawn, toppling 140,000 buildings, causing 300 major fires, killing more than 5,000 people and leaving 300,000 homeless.

To help cover the story for the L.A. Times, I left my wife to care for our 10-day-old daughter and 2-year-old son and flew into the city with a small team of Los Angeles-based trauma doctors and nurses. We found a surreal, smoking ruin of a city with roads twisted like coils of rope, high-rises tilted at Dr. Seuss angles and thousands of middle-class families jammed into dingy, ice-cold rooms in the few public buildings left standing.

Just as in the tsunami zone of South Asia this month, the immediate health danger, besides a possible outbreak of disease, was a lack of fresh water. More than 75% of the city's water supply was destroyed when underground pipes fractured. As much as they desired pallets of drugs, food, blankets and tents sent from throughout Japan and abroad, the Kobe survivors coveted -- and needed -- clean, bottled water for cooking, drinking and bathing.

Both incidents are a stark reminder that water is our most precious resource. Because it is seemingly ubiquitous in the United States, it is taken for granted.

Massive snowstorms in California this month have loaded up the snowpack that provides water there, and rains in the Southeast are filling reservoirs in that part of the country.

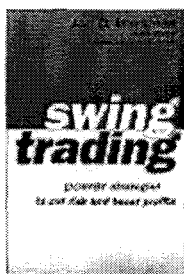
The rest of the world, however, is not so fortunate.

Not making any more water

There is no more fresh water on Earth today than there was a million years ago. Yet today, 6 billion people share it. Since 1950, the world population has doubled, but water use has tripled, notes John Dickerson, an analyst and fund manager based in San Diego. Unlike petroleum, he adds, no technological innovation can ever replace water.

China, which is undergoing a vast rural-to-urban population migration, is emblematic of the places where water has become scarce. It has about as much

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water as Canada but 100 times more people. Per-capita water reserves are only about a fourth the global average, according to experts. Of its 669 cities, 440 regularly suffer moderate to critical water shortages.

Although not widely appreciated, water has been recognized by conservative investors as an investment opportunity -- and it has rewarded them. Over the past 10 years, the Media General water utilities index is up 133%, double the return of the **Dow Jones Utilities Index** (\$UTIL). Over the past five years, water utilities are up 32% -- clobbering the flat returns of both the Dow Jones Utilities and the **Dow Industrials** (\$INDU). One of water's key long-term value drivers as an investment, according to Dickerson: Demand is not affected by inflation, recession, interest rates or changing tastes.

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Wring profits from the
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Virtually all of the U.S. water utility stocks are regulated by states and counties, which makes them pretty dull. Governmental entities typically give utilities a monopoly in a geographic region, then set their profit margin a smidge above costs. Just about the only distinguishing factor among them are the growth rates of their regions and their ability to efficiently manage their underground pipe and pumping infrastructure. Among the best are **Aqua America** (WTR, news, msgs) of Philadelphia, **Southwest Water** (SWWC, news, msgs) of Los Angeles; **California Water Service Group** (CWT, news, msgs), based in San Jose, Calif.; and **American States Water** (AWR, news, msgs) of San Dimas, Calif.

In a moment, I'll offer a couple of potentially more impactful ways to invest in water, but first let's look a little more broadly at world demand.

Aquifers in India are being sucked dry

The tsunami has focused attention on water demand in South Asia -- and it's a good thing, as it was already reaching critical status in rural areas. Several decades ago, farmers in the Indian state of Gujarat used oxen to haul water in buckets from a few feet below the surface. Now they pump it from 1,000 feet below the surface. That may sound good, but they have been drawing water from the earth to feed a mushrooming population at such a terrific rate that ancient aquifers have been sucked dry -- turning once-fertile fields slowly into sand.

According to New Scientist magazine, farmers using crude oilfield technology in India have drilled 21 million "tube wells" into the strata beneath the fields, and every year millions more wells throughout the region -- all the way to Vietnam -- are being dug to service water-needy crops like rice and sugar cane. The magazine quoted research from the annual Stockholm Water Symposium that the pumps that transformed Indian farming are drawing 200 cubic kilometers of water to the surface each year, while only a fraction is replaced by monsoon

rains. At this rate, the research suggested, groundwater supplies in some areas will be exhausted in five to 10 years, and millions of Indians will see their farmland turned to desert.

In China, the magazine reported, 30 cubic kilometers more water is being pumped to the surface each year than is replaced by rain -- one of the reasons that the country has become dependent on grain imports from the West. This is not just an issue for agriculture. Earlier this year, the Indian state of Kerala ordered the **PepsiCo** (PEP, news, msgs) and **Coca-Cola** (KO, news, msgs) bottling plants closed due to water shortages, costing the companies millions of dollars.

In this country, shareholder activists already are lobbying companies to share water-dependency concerns worldwide with their stakeholders in their financial statements.

Water, water everywhere, but . . .

The central problem is that less than 2% of the world's ample store of water is fresh. And that amount is bombarded by industrial pollution, disease and cyclical shifts in rain patterns. Its increasing scarcity has impelled private companies and countries to attempt to lock up rights to key sources. In an article last month, the Christian Science Monitor suggested that the next decade may see a cartel of water-exporting countries rivaling the Organization of Petroleum Exporting Countries for dominance in the world economy.

"Water is blue gold; it's terribly precious," Maude Barlow, chair of the Council of Canadians, told the Monitor. "Not too far in the future, we're going to see a move to surround and commodify the world's fresh water. Just as they've divvied up the world's oil, in the coming century, there's going to be a grab."

Besides the domestic water utilities listed above -- and similarly plodding foreign utilities such as **United Utilities** (UU, news, msgs) of the United Kingdom, which sports a 6.9% dividend yield, and **Suez** (SZE, news, msgs) of France -- investors interested in the sector can consider a number of variant plays. None are extremely exciting, but my guess is that, over the next few years, some more interesting purification technologies will emerge, along with, perhaps, a vibrant attempt at worldwide industry consolidation.

One current idea is Tennessee-based copper pipe and valve maker **Mueller Industries** (MLI, news, msgs), a \$1 billion business with a trailing price/earnings multiple of 15 that is still not expensive despite a 47% run-up in the past year. Its leading outside investor is **Berkshire Hathaway** (BRK.A, news, msgs), the

investment vehicle of legendary investor Warren Buffett.

Another is flow-control products maker **Watts Water**

Technologies (WTS, news, msgs), which is a little richer at a \$975 million market cap and a trailing P/E multiple of 19, but is still owned by several leading value managers, including Mario Gabelli.

And possibly the most interesting is **Consolidated Water** (CWCO, news, msgs), a \$160 million company based in the Cayman Islands that specializes in developing and operating ocean-water desalinization plants and water-distribution systems in areas where natural supplies of drinking water are scarce, such as the Caribbean and South America. It currently supplies water to Belize, Barbados, the British Virgin Islands and the Bahamas, and it has expansion plans. It is the most expensive, but it may also have the greatest growth prospects. Of all of these, it is up the most over the past five years, a relatively steady 355%.

Of course, there is one other benefit to water investing: When these companies say they're going to do a dilutive deal, it's not something to worry about.

Fine Print

Dickerson runs a hedge fund in San Diego strictly focused on water investing, the Summit Water Equity Fund. . . To learn more about Southwest Water, [click here](#). . . . To learn more about California Water Service Group, which runs systems in New Mexico, Hawaii and Washington State, as well as California, [click here](#). . . . To learn more about American States Water, [click here](#). . . To learn more about Mueller, [click here](#), and, for Consolidated Water, [click here](#). . . Seems like talk is cheap. Since mid-December, the value of the company radio personality Howard Stern is leaving, **Viacom** (VIA.B, news, msgs), has risen 9% while the value of the company he's headed to, **Sirius Satellite Radio** (SIRI, news, msgs), is down 13.5%. . . . For background on the Kobe earthquake, approaching its 10th anniversary, [click here](#) and [here](#).

Jon D. Markman is publisher of [StockTactics Advisor](#), an independent weekly investment newsletter, as well as senior strategist and portfolio manager at Pinnacle Investment Advisors. While he cannot provide personalized investment advice or recommendations, he welcomes column critiques and comments at jon.markman@gmail.com; put COMMENT in the subject line. At the time of publication he held positions in the following stocks mentioned in this column: Coca-Cola.

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ATTACHMENT C

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February 21, 2006

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STOCK WATCH

California Water: Refreshing

by

Water utility stocks are good growth investments, and they have decent dividends.

If only there were more water stocks. The few publicly traded water companies are pumping marvelous total returns: 25% a year over the past ten years at industry giant **Aqua America** (symbol WTR) and close to that at others, such as **California Water Services** (CWT), **American States Water** (AWR) and **SJW Corp.** (SJW). Water stocks are also remarkably consistent, with double-digit annualized total returns common across one, three, five and ten years.

One of the best performers so far in 2006 is California Water, which is headquartered in San Jose and also has operations in Hawaii, New Mexico and Washington. At \$42, it's up 9% from \$38 at the start of 2006. Cal Water just announced a strong finish to 2005, with fourth-quarter earnings of 32 cents a share, up from 20 cents a year earlier. Cal Water's full-year 2005 profits were basically flat because of the rainy weather early in 2005 that restrained water consumption. But business is improving again. There's also a \$1.15-a-share dividend that works out to a yield of 2.7%. California Water has now raised dividends for 39 straight years.

Assuming normal weather conditions in 2006, analysts James Lykins of Hilliard Lyons and David Schanzer of Janney Montgomery Scott are calling for Cal Water's earnings to jump this year, from \$1.48 a share for 2005 to \$1.75 and \$1.86, respectively. Both reviewed the recent quarter and have a buy rating on the shares. Since water companies are generally trading at 25 to 30 times earnings, the shares would then appear to be headed for around \$50.

Water companies' returns are regulated, so the companies are classified as public utilities. But, for investors, they're more like dividend-paying growth stocks -- and not just because of their past performance. Water usage expands with population and housing growth, and water companies are also able to grow by making acquisitions. California Water started expanding to other states in 1999 when it bought into Washington and says it is always scouting around for more opportunities.

--Jeffrey R. Kosnett

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